Audit Report on Alliant Energy Corporation 2004-2005

Approved by the Commission: June 13, 2008

Public Service Commission of Wisconsin

Eric J. Callisto, Chairperson
Mark Meyer, Commissioner
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610 North Whitney Way
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June 13, 2008

Mr. Robert J. Marchant, Senate Chief Clerk
P.O. Box 7882
Madison, WI 53707-7882

Mr. Patrick Fuller, Assembly Chief Clerk
P.O. Box 7882
Madison, WI 53707-7882

Re: Wisconsin Public Service Commission Audit Report to the Legislature on the Operations of Alliant Energy Corporation — File: 9403

Dear Mr. Marchant and Mr. Fuller:

The enclosed audit report on Alliant Energy Corporation and its impact on the operations of Wisconsin Power and Light Company was prepared as required by Wis. Stat. § 196.795(7)(ar) for distribution to the Legislature under Wis. Stat. § 13.172(2).

If you have any questions or comments about the report please contact Ms. Jodee Bartels of the Commission staff at (608) 267-9859.

Sincerely,

Sandra J. Paske

Sandra J. Paske
Secretary to the Commission

JJB:mem:g:\holding company\reports\alliant\Transmittal letter

PUBLIC SERVICE COMMISSION OF WISCONSIN
REPORT TO THE LEGISLATURE
ON
OPERATIONS OF ALLIANT ENERGY CORPORATION
FOR 2004-2005

INTRODUCTION

When the Wisconsin Legislature enacted Wisconsin Act 79 (the Holding Company Statute) in 1985[1] it created legislation regulating the formation and continuing operation of public utility holding company systems in this state. As part of that regulation the Commission is required to submit a report to the legislature on the impacts of the holding company system, both beneficial and adverse, on its public utility affiliates and their investors and consumers.[2] Periodic audits are also required by statute. An audit was recently completed and serves as the basis for much of this report.

This report describes the Alliant Energy Corporation (Alliant Energy) holding company system, its impacts on the Wisconsin utility encompassed by it, as well as any impacts on investors or consumers. The time period covered by the financial section of this report is from 2004-2005.

The most recent audit report, which focused primarily on 2004-2005 transactions, is included as Appendix A.

Executive Summary

WPL Holdings, Inc. (WPLH), the predecessor of Alliant Energy, became a diversified holding company in 1988. Since then both the holding company and the legislation regulating it have changed. Alliant Energy has and is shedding many of its diversified assets. At the same time transmission has been moved out of the public utility and become quasi non-utility and generation can be utility owned, leased from a utility affiliate, or contracted for from an independent power producer. These changes make it difficult to judge the impact of the holding company system on the public utility. It is apparent that some of the financial insulation that existed between the holding company and its public utility affiliates has disappeared (Moody's Investor's Services and Fitch Rating's downgrades of both the holding company and utility). Some of that loss of insulation may be due to the size of the non-utility assets, many of which are excluded from the asset cap limitation under the category of eligible assets. To date the public utilities have been able to maintain a separate financial rating that is higher than the holding company. There doesn't appear to be a significant impact on competition by the existence of the holding company. Any quantifiable impact on utility rates by the existence of the holding company is unknown at this time. Utility rates are increasing largely due to building cycles (generation, transmission and distribution) and fuel (generation or purchased power).[3] There

[1] 1985 Wisconsin Act 79 creating Wis. Stat. § 196.795 was passed in November 1985.
[2] Wis. Stat. § 196.795(7)(ar).
[3] Attachment F details rate changes including fuel.

have been several compliance problems associated with the holding company system.[4] However, none of them have any immediate adverse effect on the public utility affiliate.

Alliant Energy's Holding Company System

On March 31, 1988, WPLH was formed and became the parent corporation of Wisconsin Power and Light Company (WP&L). On April 21, 1998, Alliant Energy[5] was formed through a series of interrelated transactions with WPLH, Interstate Power Company (IPC), IES Industries Inc. (IES), and their affiliates. The Commission authorized the reorganization, subject to conditions, on November 5, 1997, in docket 6680-UM-100.

Alliant Energy is an investor-owned public utility holding company whose first tier subsidiaries include Interstate Power and Light Company (IPL), WP&L, Alliant Energy Resources (Resources) and Alliant Energy Corporate Services, Inc. (Services). IPL is a public utility engaged principally in the generation, transmission, distribution and sale of electric energy; and the purchase, distribution, transportation and sale of natural gas in selective markets in Iowa and Minnesota.[6] WP&L is a public utility engaged principally in the generation, distribution and sale of electric energy; and the purchase, distribution, transportation and sale of natural gas in selective markets in Wisconsin.[7] Resources is the parent company for Alliant Energy's non-regulated businesses. Services provides administrative services to Alliant Energy and its subsidiaries.

Alliant Energy manages three primary businesses: the utility business (IPL and WP&L); the non-regulated businesses (Resources and subsidiaries); and other.

The utility business: IPL and WP&L own a portfolio of electric generating facilities with a diversified fuel mix including coal, natural gas and renewable resources. The output from these generating facilities, supplemented with purchase power, is used to provide electric service to approximately 1 million electric customers in the upper Midwest. The utility business also procures natural gas from various suppliers to provide service to approximately 400,000 natural gas customers in the upper Midwest. Alliant energy's utility business is its primary source of earnings and cash flows.

The non-regulated business: Resources manages a portfolio of wholly-owned subsidiaries and additional investments through distinct platforms: Non-regulated Generation (generation projects); International (foreign energy delivery, generation and infrastructure systems);[8] and other non-regulated investments (includes investments in environmental engineering and site remediation, transportation, construction management services for wind farms and several other modest investments).[9]

The other business segment includes the operations of Services as well as Alliant Energy (the parent holding company).

[4] See Appendix A - full holding company audit report.
[5] During the merger process, the reorganized company was referred to as Interstate Energy Corporation. On May 19, 1999, the company's stockholders voted to change the corporation name to Alliant Energy Corporation.
[6] IPL had utility properties in Illinois that Alliant divested during the course of this audit.
[7] WP&L had utility properties in Illinois that Alliant divested during the course of this audit.
[8] Alliant Energy has divested a significant portion of its non-regulated international investments.
[9] Alliant Energy is or has divested a resort development in Mexico and gas pipeline gathering systems.

General corporate information is provided in Appendices B, C, and D. Appendix B Part I is an organizational chart for Alliant as of December 31, 2005. Appendix B Part II lists the companies dissolved, sold or acquired since December 31, 2005, as well as their placement in the organizational chart. Appendix C is a list prepared by Alliant of all the entities in the holding company system as of December 31, 2005. Appendix D is a list of Total Assets and Employees, and Assets and Employees located in Wisconsin, as of December 31, 2005. Appendix E identifies the Financial Operating Parameters included in various Commission orders.

Holding Company System Impact

Since 1985 public utilities have been allowed to diversify by forming holding companies. Diversification was promoted as an economic development tool. Therefore, the holding company statute contains conditions requiring the non-utility activities of a public utility holding company to promote business activity, employment, and business capital within the state. Opponents to public utility diversification raised concerns regarding the impact of diversification on the public utility and the public interest. To ensure the integrity of the public utility and protect the interest of its ratepayers, shareholders and the general public, the statute conditions approval of public utility holding companies on:

- continued regulation of the public utility and its interactions with its affiliates (allocation of costs, reasonable rates, affiliated interest approval, access to books and records);
- maintenance of a competitive environment (non-utility activities should not lessen competition, restrain trade, create a monopoly or constitute unfair business practice); and
- maintaining a healthy public utility (maintenance of management focus on the provision of utility service, maintaining reliable utility service, maintaining the utility as the predominant business of the holding company system, insulating the utility from activities of the holding company system – no material impact on public utility rates, cost of capital or ability to raise capital).[10]

This report summarizes the impact the Alliant Energy holding company system has had on its public utility affiliate, WP&L, its shareholders and the public interest. The discussion addresses, among other things, the size of the non-utility businesses, financial impacts, impact on the utility rates and reliability of service, and impacts on competition.

Size of Nonutility Business

The holding company act as originally drafted required the provision of "reasonably priced and reliable public utility service" be the predominant business of a public utility holding company system.[11] This was accomplished through the asset cap portion of the statute.[12] The asset cap restricts the sum of the assets of all non-utility affiliates to the sum of 25 percent of electric utility and 25 percent or more of the assets used to provide other utility services (i.e., gas and steam). The Commission's formation order for Alliant Energy, docket 6680-UM-100, set the level of nonutility assets at 25 percent for the steam and gas utilities.

[10] Section 1(7) of 1985 Wisconsin Act 79 - see Appendix G for detail.
[11] Section 1(7)(f) of 1985 Wisconsin Act 79.
[12] Wis. Stat. § 196.795(6m)(b) – note in 1999 Wisconsin Act 9, Wis. Stat. § 196.795(5)(p) was renumbered Wis. Stat. § 196.795(6m)(b).

The assumption of utility predominance in a holding company structure was affected by the passage of asset cap relief. In October 1999, Wisconsin Act 9 (Act 9) created Wis. Stat. § 196.795(6m)(e). This provides a public utility holding company partial relief from limits on non-utility assets it may own if the electric utilities in the holding company system transfer their electric transmission facilities to a separate transmission company under Wis. Stat. § 196.485(5)(b).[13] A category called "eligible assets" was created. Eligible assets are assets in qualified non-utility investments that are excluded from the calculation of the asset cap (see discussion of regulatory change). Alliant met the criteria for this relief on November 5, 1999.

Table 1 summarizes the relative size of nonutility assets from 2000 through 2005. The passage of Act 9 in late 1999 substantially changed the calculation of the percentage of nonutility assets; therefore comparisons with years prior to 2000 should be limited.

As of December 31, 2005, total ineligible[14] nonutility affiliate assets were 7.02 percent of total utility assets. On that date, the investment limit for nonutility investments, which equals 25 percent of total combined utility assets, amounted to $1.658 billion while actual ineligible nonutility assets totaled $466 million. This information is shown in more detail in Table 1.

Table 1
Alliant Energy Corporation
Utility and Nonutility Assets

	2000-2005 ($1,000)					
	2005[(1)]	2004[(1)]	2003[(1)]	2002[(1)]	2001[(1)]	2000[(1)]
A. Utility assets	6,633,108	6,532,907	6,104,312	4,775,751	4,380,431	4,380,993
B. Nonutility affiliates	465,878	527,187	457,485	552,859	441,450	556,515
C. Holding company and inter-company transaction adjustment						
D. Consolidated	7,089,986	7,060,094	6,564,797	5,328,610	4,821,881	4,937,508
E. Investment percent (Lines B + C / Line A)	7.02%	8.07%	7.49%	11.58%	10.08%	12.70%
F. 25% of total combined utility assets	1,658,277	1,633,227	1,526,078	1,193,938	1,095,108	1,095,248

(1) Excludes eligible assets under Wis. Stat. § 196.795(6m). 2005 ($2.063 billion), 2004 ($2.030 billion), 2003 (1.980 billion), 2002 (2.129 billion).

In arriving at utility assets for 2000-2005 in Table 1, Commission staff adjusted Alliant's calculations to eliminate assets of Nuclear Management Company (NMC), Alliant Energy SPE LLC, Alliant Energy Transco LLC, and WP&L's allocated share of the assets of Servco. These assets are considered as eligible assets and are properly excluded from the nonutility assets in determining the asset cap limitation. However, these assets are held by nonutility affiliates, not by a public utility affiliate, and therefore do not qualify for addition as utility assets. In effect these assets are removed from both the numerator and the denominator for purposes of the asset cap calculation.

[13] Effective on November 5, 1999, WP&L transferred its electric transmission system assets to American Transmission Company LLC in exchange for equity interests in this new company. As a result of the transfer of these assets, Alliant Energy meets the criteria for the partial relief provided under Wis. Stat. § 196.795(6m)(e) from the limits on non-utility assets pursuant to Wis. Stat. § 196.485(5)(b).

[14] These are assets of nonutility affiliates which are neither an "Eligible asset" nor a "Wholesale merchant plant" as defined in Wis. Stat. § 196.795(6m)(a)2. and 6., respectively.

Alliant Energy has undertaken significant divestments of its non-core assets. By December 31, 2006, the total non-utility assets had dropped to $791.9 million down from $2.549 billion at the end of 2005. (See Appendix B, Part II)

Financial

Wis. Stat. § 196.795(5)(g) provides that no holding company system may be operated in any way which materially impairs the credit or ability to acquire capital on reasonable terms of any public utility affiliate in the holding company system.

To help ensure that the utility remains financially healthy, the Commission has established operating parameters including reasonable and balanced capital structures and dividend policies based on the utility's needs. Since the appropriate operating parameters that the Commission may establish can be expected to change over time as the public interest requires, Appendix E contains the detailed historical information necessary to evaluate whether WP&L is meeting the criteria that the Commission found necessary to ensure that the utility is able to provide reliable, low cost service into the future. Table 2 summarizes the dividend policies and reasonable equity ratios for the period 1999 through 2005.

Table 2
Dividend Restriction and Equity Range Statistics

	1999-2005						
	2005(1)	2004(1)	2003(1)	2002(1)	2001(2)	2000(2)	1999(2)
Actual common equity ratio – 13-month average regulatory equity(3)	60.42%	63.24%	52.58%	44.05%	45.29%	47.95%	47.03%
Actual common equity ratio – 13-month average financial equity	50.45%	55.01%					
Test Year Forecasted Equity Level (4)	53.14%	54.01%	51.72%	44.67%	52.00%	52.00%	52.00%
Restriction Triggered	Yes	No	No	Yes	Yes	Yes	Yes
Restricted Dividend Amount ($1,000)(4)	92,264	88,940	70,580	61,981	58,344	58,344	58,344
Dividends Paid ($1,000)	89,771	88,940	70,580	59,645	60,449	0	58,353
Equity Range, on a financial basis (5)	47.5% to 54.0%	47.5% to 54.0%	47.5% to 54.0%	46.5% to 53.0%	45% to 50%	45% to 50%	45% to 50%

Source:
(1) Calculation for financial equity ratio includes off-balance obligations for purchased power and operating leases.
(2) Does not include accounts receivables sales.
(3) Calculated from WP&L Financial Operating Reports, see Table 3.
(4) From docket 6680-UR-110 for 1999-2001, docket 6680-UR-111 for 2002, docket 6680-UR-112 for 2003, docket 6680-UR-113 for 2004 and docket 6680-UR-114 for 2005-06.
(5) From docket 6680-UR-110 for 1999-2001, docket 6680-UR-111 for 2002, docket 6680-UR-112 for 2003, docket 6680-UR-113 for 2004 and docket 6680-UR-114 for 2005-06.

1. Dividend Policy

In early 1986, the Commission found that before WP&L invested in non-utility ventures, the company must first reach and maintain the 50 percent equity level determined reasonable by the Commission.[15] With the formation of WPLH, the Commission ordered that all dividends paid from WP&L to the holding company were to be passed through to the shareholders of the holding company until WP&L reached the equity ratio set by the Commission.[16] Eventually the Commission withdrew the dividend pass through requirement, but restricted WP&L from paying any greater than normal dividends in cases where such payment would result in the utility common equity ratio falling below the average level forecasted in the test year.[17] This policy remains in effect to date although the levels of dividend and equity ratios have changed over time. Table 2 contains the dividend levels and equity ratios contained within the dividend restrictions for the period 1999 through 2005 along with the dividends paid and the equity ratios maintained by WP&L. With the increased use of off-balance sheet financing, the Commission expanded the ratemaking and financial capital structures to include recognition of the debt equivalents for off-balance sheet obligations, where appropriate.[18]

As shown in Table 2, WP&L's average equity levels for 1999 through 2002 were below the test year forecasts established in dockets 6680-UR-110 and 6680-UR-111. Consequently, WP&L was restricted from paying dividends greater than the dividends forecasted in those dockets. WP&L's dividend exceeded the allowed dividend in 1999 and 2001. This issue was discussed by Alliant and Commission staff in the *Audit Report on Alliant Energy Corporation 2000-2001*. As a result of that discussion, the Commission revised the dividend restriction in docket 6680-UR-112 for 2003 to clarify that the pass-through to Alliant of subsidiary dividends paid to WP&L is included in the dividend restriction. WP&L's dividend did not exceed the restricted dividends in 1999, 2000, 2002, 2003, 2004, and 2005. In 2003 and 2004 WP&L maintained its regulatory equity levels above that forecasted for test years 2003 and 2004. In 2005 the equity level was below forecast and the dividend paid was below the limit.

2. Financial Statistics

Dividend payment policy, however, is only one area of managing a reasonable and balanced capital structure. The common equity component of capital structure can be managed in two ways; either through dividend policy (i.e. the payment or retention of earnings) or by stock transactions (i.e. stock issuance or buy-backs). A growing company needs capital. Even in a good earnings year, a company may need to add equity beyond that obtained by retained earnings to meet its growth and balance its capital structure. Because a wholly owned subsidiary does not issue additional common stock in the financial markets, it relies upon its parent for capital contributions to fund the additional equity requirements. This means Alliant, prior to the merger, would have to make any additional investment in WP&L through an equity contribution.

Table 3 shows the year-end capitalization for WP&L and Alliant. For each entity, two capitalizations are shown. The first is the booked capitalization. This contains the companies' securities that are recorded on the balance sheet. However, not all indebtedness is recorded on the balance sheet. In light of recent concerns regarding the amount of such off-balance-sheet indebtedness, the second capitalization incorporates adjustments for WP&L's and Alliant's

[15] January 30, 1986, Order in docket 6680-SB-101.
[16] April 30, 1987, Order in docket 9403-YO-100.
[17] October 13, 1988, Order in docket 6680-UR-103.
[18] September 13, 2002, Order in docket 6680-UR-111.

off-balance-sheet obligations. The off-balance-sheet obligations consist of a portion[19] of the present value (10 percent discount factor) of operating leases and purchased power agreements, and 100 percent of the sales of accounts receivables.

Table 3
Year-end Capitalization

	1999-2005						
	2005	2004	2003	2002	2001	2000	1999
WP&L							
Capitalization (in $1,000)							
Common Equity(1)	$1,064,060	$1,050,865	$1,011,837	$766,699	$701,930	$662,560	$599,097
Preferred Stock(1)	59,963	59,963	59,963	59,963	59,963	59,963	59,963
Short-term Debt(1)	93,500	47,000	0	60,000	90,816	29,244	125,749
Long-term Debt(1), (2)	543,475	503,673	468,344	534,830	535,547	579,444	477,840
Off-Balance-Sheet Obligations(3) (OBSO)	347,750	248,878	307,956	364,065	346,638	206,178	204,661
Common equity ratio - Booked basis	60.42%	63.25%	65.70%	53.94%	50.56%	49.77%	47.45%
Total Debt to Capital– Booked basis	36.77%	33.14%	30.41%	41.84%	45.12%	45.72%	47.80%
Common equity ratio – With OBSO	50.45%	55.01%	54.75%	42.94%	40.46%	43.10%	40.83%
Total Debt to Capital – With OBSO	46.70%	41.85%	42.01%	53.70%	56.08%	53.00%	55.08%
Alliant(4)							
Capitalization (in $1,000)							
Common Equity(4)	$2,440,500	$2,561,400	$2,371,314	$1,836,190	$1,918,341	$2,037,472	$2,155,565
Preferred Stock at par value(4)	243,800	243,800	249,963	209,963	116,352	116,352	116,352
Short-term Debt(4)	151,700	96,500	128,995	309,221	152,722	444,735	424,719
Capital Lease(4)	41,000	81,000	73,955	72,723	37,646	46,115	39,362
Long-term Debt(4)	1,914,800	2,289,400	2,620,387	3,085,051	2,877,280	2,399,709	1,604,642
Off-Balance-Sheet Obligations(3)	874,700	702,500	521,816	583,116	528,189	342,850	316,617
Common equity ratio - Booked basis	50.93%	48.58%	43.55%	33.31%	37.60%	40.39%	49.66%
Total Debt to Capital– Booked basis	43.98%	46.79%	51.86%	62.89%	60.12%	57.30%	47.66%
Common equity ratio – With OBS	43.07%	42.87%	39.74%	30.12%	34.07%	37.82%	46.28%
Total Debt to Capital – With OBS	52.63%	53.05%	56.07%	66.44%	63.86%	60.02%	51.22%

Sources:
(1) PSCW Annual Reports – Financial Basis. Common equity for 2000 through 2002 excludes subsequent adjustments of $33,000, $22,000 and $281,000, respectively, which were not reported on corrected PSCW Annual Reports.
(2) Includes amounts booked as Advances from Associated companies. These amounts are associated with pensions for former WP&L employees working for Alliant Corporate Services, Inc.
(3) Data from WP&L and Form 10-K to the Securities and Exchange Commission, Note 11b
(4) Form 10-K to the Securities and Exchange Commission, Note 3

As shown in Table 3, WP&L's financial capital structure, weakened from 1999 through 2001 as the company took on disproportionally more debt obligations, including off-balance sheet obligations, than equity. This occurred at a time when ratings agencies were looking for more

[19] The percentage of the off-balance sheet obligation factored into the capital structure varies based on an assessment of the obligation's debt equivalency. In docket 6680-UR-111 for 2002, the Commission accepted the factors used by WP&L of 100 percent for operating leases and 60 percent for purchased power. In docket 6680-UR-112 for 2003, the Commission found that a 60 percent factor for both operating leases and purchased power was appropriate. The correct factors will continue to be reviewed in rate cases. For comparability, the most recent factors of 60 percent will be used for 1999-2005 off-balance sheet obligations.

equity to compensate for the increased business risks expected when the electric utility industry became deregulated and competitive. As committed by Alliant in its response to the *Audit Report on Alliant Energy Corporation 2000-2001*, Alliant made equity infusions of $61 million in 2002 and $200 million in 2003. As a result WP&L ended 2003 with a capital structure containing 54.75 percent equity, slightly above the 47.5 percent to 54.0 percent range established by the Commission. WP&L's equity is within the range for an "A"-rated utility. The appropriate equity range was reviewed for the 2005 test year and the 47.5 percent to 54.0 percent range was reordered in Docket 6690-UR-114.

Alliant has not faired as well. In the four years ended December 31, 2002, Alliant had taken on $1.9 billion of debt obligations while adding only $324 million of common and preferred equity. On November 22, 2002, Alliant announced a plan of action to maintain a strong credit profile, strengthen its balance sheet, and position the company for improved long-term financial performance. As can be seen in Table 3 Alliant's equity and debt-to-capital ratios have improved in 2004 and 2005.

Table 4 contains additional financial statistics showing income before income taxes and pretax interest coverage.

Table 4
Selected Financial Statistics

			1999-2005				
WP&L	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**	**1999**
Income before Income Taxes ($1,000)	$167,792	$175,259	$180,717	$125,648	$114,728	$114,319	$116,588
Pretax interest coverage[(1)]	5.60	5.70	5.77	4.13	3.64	3.56	3.84
Pretax interest coverage with OBSO[(2)]	3.92	3.99	3.86	2.92	2.84	2.99	3.14
Earned return on equity-regulatory[(3)]	10.63%	Not Reported	12.24%	11.46%	9.33%	9.66%	10.66%
Earned return on equity-financial[(4)]	10.84%	Not Reported	12.56%	11.86%	9.74%	10.09%	11.19%
U.S. Treasury bond yields[(5)]	4.29%	4.27%	5.02%	5.41%	5.49%	5.94%	5.87%
				Alliant/WPLH			
Alliant[(6)]	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**	**1999**
Income before Income Taxes ($1,000)	$3,500	$309,600	$295,950	$142,450	$245,070	$620,770	$317,067
Pretax interest coverage[(1),(8)]	.02	1.75	2.40	1.73	2.32	4.61	3.38
Earned return on equity [(7)]	Not Reported	Not Reported	Not Reported	Not Reported	Not Reported	19.0%	10.5%

Sources:
(1) Calculated from Form 10-K to the Securities and Exchange Commission
(2) Includes estimated imputed interest for average operating leases and purchase power agreements
(3) Page F-9 of Annual Report to PSCW
(4) Page F-9 of Annual Report to PSCW
(5) Federal Reserve Statistical Release Website. Years 1999-2001 are for the 30-year average (statistics now discontinued), while years 2002-2005 are for the new long-term average (25 years and above).
(6) 1999-2005 data for Alliant
(7) As reported in the Form 10-K to the Securities and Exchange Commission
(8) In 2004 and 2005 a combination of increased levels of long term debt and reduced income adversely affected the pretax interest coverage. In subsequent years the ratio returned to more normal levels and will be reviewed in the next Report to the Legislature.

3. Credit Ratings

Table 5 contains the credit ratings history for WP&L's commercial paper, long-term secured securities, long-term unsecured securities, along with WP&L's general corporate ratings from both Standard & Poor's Corporation (S&P) and Moody's Investors Services (Moody's).

Table 5
Wisconsin Power & Light Company
Corporate and Debt Ratings

	1999-2005						
	2005	2004	2003	2002	2001	2000	1999
Corporate Ratings							
Standard & Poor's	A-	A-	A-	A-	A	AA-	AA-
Moody's Investors Services	A2	A2	A2	Aa3	Aa3	Aa3	Aa3
Long-term Secured Debt							
Standard & Poor's	A-	A-	A	A	A+	AA	AA
Moody's Investors Services	A1	A1	A1	Aa2	Aa2	Aa2	Aa2
Long-term Unsecured Debt							
Standard & Poor's	A-	BBB+	BBB+	BBB+	A-	A+	A+
Moody's Investors Services	A2	A2	A2	Aa3	Aa3	Aa3	Aa3
Commercial Paper							
Standard & Poor's	A-2	A-2	A-2	A-2	A-1	A-1+	Unrated
Moody's Investors Services	P-1	P-1	P-1	P-1	Unrated	Unrated	Unrated

On January 26, 2000, S&P revised its outlook for Alliant and its subsidiaries, including WP&L, to negative from stable. In its release, S&P notes "The ratings reflect the strong business and financial profiles of the utility subsidiaries. . . However, Alliant's consolidated credit quality will be challenged by the company's focus on growing higher risk nonregulated businesses."

On October 17, 2001, S&P lowered Alliant's corporate credit ratings from A+ to A-, commercial paper ratings from A-1 to A-2, and senior unsecured debt from A to BBB+. In addition, S&P lowered the corporate credit rating of WP&L from AA- to A. S&P lowered the senior secured debt ratings from AA to A+, the senior unsecured debt rating from A+ to A-, and the preferred stock rating from A to BBB+. This represents a downgrading of two notches. In its announcement of the downgrading, S&P noted that "Alliant's consolidated credit quality is challenged by the company's focus on growing the nonregulated businesses." The year 2001 also saw the downgrading of WP&L's preferred stock by Moody's. Bond and preferred stock investors have again seen the quality of the securities they purchased decline.

On November 22, 2002, Alliant announced a plan to strengthen its credit profile. Although this plan, if executed properly, should in time, positively affect WP&L's credit ratings, this plan was not able to prevent two further down gradings; one by S&P and the other by Moody's. On December 6, 2002, S&P lowered Alliant's corporate credit ratings from A- to BBB+ and senior unsecured debt from BBB+ to BBB. In addition, S&P lowered the corporate credit rating of WP&L from A to A- and its commercial paper rating from A-1 to A-2. S&P lowered the senior secured debt ratings from A+ to A, the senior unsecured debt rating from A- to BBB+, and the preferred stock rating from BBB+ to BBB. Furthermore, on January 13, 2003, Moody's downgraded all of WP&L's ratings two notches except the commercial paper rating, which remained unchanged. Bond and preferred stock investors continue to see the quality of the securities they purchased decline.

Alliant's November 2002 strategic plan is intended to reduce acquisition expenditures and exit certain non-regulated business and strengthen its financial profile. However, as of May 24, 2004, S&P has indicated that for Alliant Energy, "financial performance at the consolidated level has improved over the last year, but remains weak for the rating category" and "Alliant Energy remains highly leveraged: . . . Moreover, these measures are unlikely to improve materially over the intermediate term."

As can be seen in Table 3 (Alliant's common equity and debt-to-capital ratios) Alliant has improved in both 2004 and 2005. As can be seen in Table 5 WP&L's credit ratings have remained stable for the 2004-2005 period.

As seen in the dividend policy and financial statistics sections, the Commission has established operating parameters for WP&L to maintain its financial health. While the maintenance of equity is more costly to ratepayers than that of debt, the additional equity allows the utility to weather economic shocks and downturns. This should be reflected in the credit ratings. However, in spite of the Commission's efforts to maintain WP&L's financial strength, the utility has seen substantial downgrading of its ratings, with the resulting increased relative cost of debt. S&P has noted that "In most circumstances, Standard & Poor's does not rate wholly owned subsidiaries that are core to the parent's strategy above the parent's rating. However, exceptions are made in the case of structural and/or regulatory insulation."[20] WP&L's credit ratings are tied to its parent's ratings with minimal insulation. As shown in Table 5, security holders have seen their investments impaired as the credit quality, and consequently value of their securities, were downgraded from AA-grade prior to the merger to A-grade or BBB-grade. In addition, ratepayers have been and will continue to be affected by the higher relative interest rates WP&L will pay to issue new debt which is lower quality than before the merger. Furthermore, as a wholly-owned subsidiary of Alliant, WP&L is dependent on Alliant to infuse WP&L with equity. The operation of the holding company has materially impacted the credit and cost of WP&L's credit.

Utility Rates

Appendix F details historic rate changes from 1995 to 2005. The table reflects the merger freeze,[21] changes due to fuel and the normal rate case process.

Reliability of Service

In evaluating a utility's commitment to reliability of service, the Commission looks at numerous areas including the volume of service complaints, levels and effectiveness of maintenance, construction and other costs expended to upgrade the system, and the level of activity in areas such as least cost planning and transmission planning. The following are comments related to the Commission's review of these areas:

[20] Conversations with representatives of both S&P and Moody's reveal that, in general, the difference between S&P's and Moody's ratings reflect whether the rating agency believes that the utility is insulated from the other operations of the holding company.

S&P believes that the managers will manage the entire holding company together. It also believes cash can flow easily between affiliates and that it is difficult to make a case that a utility can be insulated from other affiliates. After developing a corporate rating, it evaluates the utility to see if it warrants a higher or lower rating than the corporate. Consequently, WP&L will be affected by credit down-grading of Alliant.

Moody's rating process begins with an analysis of the utility. It looks at safeguards to insulate it. Such safeguards noted in Moody's analysis include the Wisconsin asset cap, which limits a holding company's investments in unregulated business to 25 percent of the combined net utility assets, and WP&L's dividend restriction which proscribes paying any dividends that would reduce equity below approximately 52 percent of total capital.

[21] The formation of Alliant Energy in March 1998 required WP&L to "freeze" rates for four years upon approval of their merge, except for fuel changes and uncontrollable increases in excess of $4.5 million.

1. Complaints

Complaints received by the Commission related to WP&L or to the Alliant holding company system have been relatively steady for 2003, 2004, and 2005 as shown in Table 6.

Table 6

Year	Number of Billing and Credit Complaints	Number of Service and Other	Total Complaints
2002[22]	286	24	310
2003	421	30	451
2004	418	42	460
2005	414	34	448

The majority of the complaints are in the billing and credit area, with complaints related to service and other areas remaining very insignificant.

2. Maintenance and construction activity

In prior reports, a comparison of maintenance costs between various Wisconsin utilities was provided. As of 2002, there are no major Wisconsin utilities that are not part of a holding company system. With the divestiture of transmission assets to American Transmission Company (ATC), and the transfer of the operation of the nuclear plants to NMC, the pot of dollars that can be considered comparable is shrinking. Leases of corporate offices or headquarters affect the comparability of general plant maintenance. Excluding general plant maintenance in order to keep the various utilities on similar footing will further erode the pot of maintenance dollars being compared and the resulting comparison would not be meaningful.

3. Planning activity

In 1975, the Wisconsin Legislature created[23] Wis. Stat. § 196.491 that provided an "advance plan" process to inform the Commission and the general public of the electric utilities' plans to meet their customers' needs. The Commission's advance plan process required the utilities to file generation, transmission, and energy efficiency plans every two years for Commission approval. 1997 Wisconsin Act 204 changed the statutes, replacing the advance plan process with a Strategic Energy Assessment (SEA). Investor-owned utilities still provide data every two years, but the Commission prepares the SEA. WP&L filed its information for all of the Commission prepared SEAs.

Over the years, the Commission has reviewed the utilities' natural gas supply planning activities. On November 8, 1996, the Commission issued an order in docket 05-GI-106, which formalized the review process for gas supply planning. Annual, each gas utility must file a comprehensive gas supply plan for Commission approval. WP&L has complied with this Commission directive.

[22] In the prior holding company report, both primary and secondary complaints were reported. Upon reconsideration, it appears counting only the primary complaint as reported on the PSCW website may be a more accurate presentation. Based upon review during this audit, several complaints during the 1999-2002 period were found to be incorrectly coded as Alliant complaints and have been reclassified as WP&L complaints.

[23] WP&L will continue to provide energy efficiency services with the remainder of the its energy efficiency funds, about $11 million in 2003. The largest share of these dollars will be used to continue WP&L's Shared Savings Program for commercial and industrial customers.

In the 1980s and 1990s, there was a statutory requirement that Class A electric and gas utilities spend at least 0.5 percent of their annual operating revenues on programs to promote energy efficiency and the use of energy derived from renewable resources. The PSC ordered the utilities to conduct a variety of programs under its rate-making authority and consistent with its findings in planning dockets. 1999 Wisconsin Act 9 (Act 9) replaced these programs with similar programs known generically as "public benefits" programs. Act 9 provided for the Wisconsin Department of Administration (DOA) to administer statewide energy efficiency and renewable resource programs and to implement the programs. Act 9 required the utilities to contribute approximately $62 million to public benefits programs.

2005 Wisconsin Act 141 (Act 141) requires all investor-owned gas and electric utilities to collectively create and fund statewide energy efficiency and renewable resource programs. Each energy utility is to contribute 1.2 percent of its annual operating revenues to fund the programs. The energy utilities have no obligations regarding the statewide programs other than creating and funding the programs and contracting for their administration. An energy utility is considered have met its energy efficiency responsibilities, including the energy priorities law, if it spends the full amount required by Act 141.

Alliant has met all of its energy efficiency and renewable resource program responsibilities.

Business of Nonutility Affiliates

The legislature found in Section 1(5) of the Wisconsin Act 79 that:

> The public interest and the interest of investors and consumers can be benefited if public utility holding companies, in the service territories of their public utility affiliates or in this state:
>
> (a) Conduct substantial business activities.
> (b) Attract new businesses.
> (c) Expand existing businesses.
> (d) Provide investment capital for new business ventures.
> (e) Otherwise directly or indirectly promote employment and commerce.

Wis. Stat. § 196.795(7)(a) provides that as part of the Commission's investigation of the impact of the holding company, a determination should be made whether each nonutility affiliate does, or can reasonably be expected to do, one of the following:

1. Substantially retain, substantially attract or substantially promote business activity or employment or provide capital to businesses being formed or operating within the wholesale or retail service territory, within or outside this state, of any public utility affiliate.
2. Increase or promote energy conservation or develop, produce or sell reusable energy products or equipment.
3. Conduct a business that is functionally related to the provision of utility service or to the development or acquisition of energy resources.
4. Develop or operate commercial or industrial parks in the wholesale or retail service territory of any public utility affiliate.

A list of Alliant's nonutility affiliates as of December 31, 2005, is included as Appendix C. This list indicates how Alliant classifies each entity as being in compliance with Wis. Stat. § 196.795(7)(a) and is discussed in more detail below. Appendix C is a list of Assets and number of Employees for the major affiliates in total and located within Wisconsin.

Compliance with Wis. Stat. § 196.795(7)(a)

The list of nonutility affiliates provided by Alliant, included as Appendix C, includes many utility ventures located in foreign countries, and several RMT companies which are located outside of the WP&L wholesale or retail service territory. According to Alliant, these comply with the above statute by being functionally related to the provision of utility service or to the development or acquisition of energy resources.

There is no true definition of the term "functionally related" within the Wisconsin Statutes, legislative history, or in state case law. The United States Supreme Court looked at the term "functionally related" in *Securities Industry Association v. Board of Governors of the Federal Reserve System,* 468 US 207, 82 L. Ed. 2d 158, 104 S. Ct. 3008 (1984). The court dealt with the issue of whether the Board had the power under the Bank Holding Company Act to determine if a bank holding company could acquire a non-banking affiliate engaged principally in the business of a retail securities brokerage and was "closely related" to banking. The Court noted the difference between "closely related" and "functionally related."[24] Congress was found to have rejected the "functionally related" test and the Court stated it thought the "closely related" test broadened the Board's powers. Thus, it could be inferred that the "functionally related" test is more restrictive.

On this basis, it appears that the RMT companies which provide environmental engineering and consulting, Alliant Energy Transportation, Inc. which provides storage facilities and railcar inspection services, and investments in utilities in foreign countries, although related within a broad sense, may not be "functionally related" as required by this statute.

Based on the above it appears that some of Alliant's nonutility affiliates do not comply with Wis. Stat. § 196.795(7)(a). Some of these nonutility affiliates (such as the RMT companies, telecommunication companies, and Alliant Energy Transportation, Inc.) may qualify as "eligible assets" under Act 9.

Act 9 modified the asset cap limitation on nonutility investments of holding company systems, pursuant to Wis. Stat. § 196.795, to allow "eligible assets" to be excluded from the calculation of nonutility assets as a percentage of utility assets.[25]

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[24] See Id. at 215 n. 12.

[25] Act 9 did not, however, modify Sections 1 through 4 of Wis. Stat. § 196.795(7)(a), defining appropriate nonutility investments. An ambiguity therefore exists between what is allowable under the definition of appropriate nonutility investments and the types of investments that qualify for inclusion under the category of "eligible assets." Not all "eligible assets" will meet at least one of the four criteria of Wis. Stat. § 196.795(7). For instance, investments in assets that process waste material, or provide telecommunication service (as defined in § 196.01 (9m)) are considered "eligible assets" but do not meet the criteria in Wis. Stat. § 196.795(7)(a). If the nonutility investments of a public utility holding company do not, or cannot, reasonably be expected to meet one of the four criteria under Wis. Stat. § 196.795(7)(a), the holding company becomes subject to Wis. Stats. §§ 201.01(2) and 201.03(1) and the holding company is no longer exempt from the definition of a "public service corporation."

Appendix A

Public Service Commission of Wisconsin

Audit Report on Alliant Energy Corporation

2004-2005

PUBLIC SERVICE COMMISSION OF WISCONSIN
AUDIT REPORT ON ALLIANT ENERGY CORPORATION
2004-2005

INTRODUCTION

Alliant Energy is an investor-owned public utility holding company whose first tier subsidiaries include Interstate Power and Light Company (IPL), Wisconsin Power and Light Company (WP&L), Alliant Energy Resources (Resources) and Alliant Energy Corporate Services, Inc. (Services). IPL is a public utility engaged principally in the generation, transmission, distribution and sale of electric energy; and the purchase, distribution, transportation, and sale of natural gas in selective markets in Iowa and Minnesota.[1] WP&L is a public utility engaged principally in the generation, distribution and sale of electric energy; and the purchase, distribution, transportation and sale of natural gas in selective markets in Wisconsin.[2] Resources is the parent company for Alliant Energy's non-regulated businesses. Services provides administrative services to Alliant Energy and its subsidiaries.

Alliant Energy manages three primary businesses: the utility business (IPL and WP&L); the non-regulated businesses (Resources and subsidiaries); and other.

The utility business: IPL and WP&L own a portfolio of electric generating facilities with a diversified fuel mix including coal, natural gas and renewable resources. The output form these generating facilities, supplemented with purchase power, is used to provide electric service to approximately 1 million electric customers in the upper Midwest. The utility business also procures natural gas from various suppliers to provide service to approximately 400,000 natural gas customers in the upper Midwest. Alliant energy's utility business is its primary source of earnings and cash flows.

The non-regulated business: Resources manages a portfolio of wholly-owned subsidiaries and additional investments through distinct platforms: Non-regulated Generation (generation projects); International (foreign energy delivery, generation and infrastructure systems);[3] and other non-regulated investments (includes investments in environmental engineering and site remediation, transportation, construction management services for wind farms and several other modest investments).[4]

The other business segment includes the operations of Services as well as Alliant Energy (the parent holding company).

[1] IPL had utility properties in Illinois that Alliant divested during the course of this audit.
[2] WP&L had utility properties in Illinois that Alliant divested during the course of this audit.
[3] Alliant Energy has divested significant portions of its diversified investments.
[4] Alliant Energy is in the process of, or has divested a resort development in Mexico and gas pipeline gathering systems.

OBJECTIVES AND SCOPE OF AUDIT

Traditionally the overall purpose of a holding company audit is an examination of the operations of the holding company and affiliated transactions for compliance with Wis. Stat. § 196.795. Affiliated transactions between the public utility affiliate and nonutility affiliates including the parent corporation (the holding company) are reviewed to determine the reasonableness of cost allocation methods, reasonableness of pricing methods, and benefit to ratepayers.

This audit used a traditional audit approach and added elements of a managerial audit (documentation and policy compliance) to test for compliance with Wis. Stat. § 196.795. The audit focused on subsidization and allocation issues (small business and competitive concerns) in addition to the traditional compliance with reporting requirements.

AUDIT FINDINGS AND RECOMMENDATIONS

I. DOCUMENTATION OF AFFILIATED RELATIONSHIPS

Policies and procedures were examined to ensure that they defined the nature of the relationships between affiliates, met the applicable legal, regulatory and contractual requirements and were consistently followed.

A. Organization

Organizational charts

Commission staff requested detailed organizational charts for the Alliant Energy companies, including the name, title, and position of all executive level personnel, department heads, and function managers. Detailed organizational charts provide an understanding of the make-up of the holding company and its subsidiaries, as well as providing detail on reporting levels, key and joint personnel. Organizational charts should be layered. The first layer should detail the organizational structure of the corporate family (the holding company system). The levels depicted will depend on how the holding company is structured: sub-holding companies, business lines, subsidiaries of subsidiaries, etc. A chart of this nature will establish natural paths of corporate communication and aid in understanding how services and costs flow between family members. The second layer should consist of detailed organizational charts for each subsidiary. Those charts should include the name, title, and position of all executive level personnel, department heads, and function managers. Charts of this nature establish lines of authority and responsibility by providing detail on reporting levels. They include key personnel in sensitive areas, such as gas marketing, and joint or shared personnel.

Alliant Energy provided a first layer organizational chart clearly detailing the organizational structure of the holding company system, second tier organizational charts depicting the organizational structure of sub-holding companies and subsidiaries, and a separate summary chart depicting the management structure of the holding company system.

During the time period covered by the audit and the finalization of this report, Alliant Energy was undergoing a significant downsizing with divestiture of many of its international holdings. As a consequence the organizational structure charts contained entities that had been sold or were in the process of being sold. That the organizational structure charts were in a state of flux was a natural and predicable result of the downsizing effort. When asked, Alliant Energy provided clarification indicating which entities had been sold and which were being held for sale. With that clarification, Alliant Energy's organizational structure charts contain sufficient detail to establish the corporate organizational structure, the natural paths of corporate communication and an understanding of how services and costs should flow between family members.

The separate summary chart depicting the management structure is detailed showing chain of command and reporting responsibilities by business function or platform. It is not integrated with the organizational charts. Alliant Energy did provide separate listings of officers and directors by entity.

Commission staff put together a worksheet showing officers and directors for the majority of the entities in the Alliant Energy system. The purpose was to indicate how many entities each officer and director was directly involved in as well as the lines of authority and responsibility for each entity. Although the entities are now divested it appears that the lines of authority and reporting relating to the international investments were weak.

A detailed organizational chart or series of charts served a dual purpose in this holding company compliance audit. One, it provided staff with a road map that not only indicated corporate structure, but individual responsibility for certain key areas. Secondly, and more importantly, the major thrust of the questions relating to organizational charts had to do with a fundamental compliance check of internal control.

Organization Audit Recommendations

1. Alliant Energy should directly or indirectly integrate the detailed management structure chart with the second tier organizational charts. The charts can be supplemented with documents which establish internal direction, purpose and areas of responsibility. The product or process should meet the criteria discussed above and be available for Commission staff review during the next holding company audit of Alliant Energy.

B. Affiliated Interest Policies and Procedures

Commission staff requested documentation of affiliated interest policies and procedures as well as documentation of affiliate interest compliance with legal, regulatory and contractual obligations. The purpose of this specific audit step is to determine whether or not the company has formal or informal policies and procedures regarding affiliated interest relationships and how they ensure compliance not only with those policies and procedures but with the underlying regulatory requirements.

Alliant Energy stated that such affiliated interest issues are typically addressed in the context of policies and procedures dealing with other functions and subjects. For example if WP&L were to consider entering into a contract with an affiliate, the requirement for a Commission approved affiliated interest agreement would be addressed in the internal contract review and approval process. Additionally, all Alliant Energy subsidiaries are expected to comply with Alliant Energy policies and procedures pursuant to Policy 111, Alliant Energy Ethical and Legal Compliance Code of Conduct. The External Relations department (Legal and Regulatory

Relations) assures compliance in this area. Alliant Energy provided a copy of Policy 164, Regulatory Relations and Compliance. The Corporate Ethics Officer has overall responsibility for implementing and overseeing the ethical and legal compliance code of conduct and process related to it.

Alliant Energy's response also stated that evaluation of compliance with affiliated interest requirements is subsumed in Alliant Energy's compliance evaluation generally. In 2005, Internal Audit under took an extensive review of Sarbanes-Oxley compliance processes, in the course of which it reviewed controls related to the service company's capturing and processing of information, including information used for allocating costs among various affiliates. External Relations regularly undertakes internal projects which examine the organization's compliance with particular regulatory requirements, including affiliated interest issues.[5] In 2006, the Strategy and Risk Department began a major compliance oversight project. The objective of which was to review Alliant Energy's processes and accountabilities in place to comply with external requirements (including relationships and transactions between utility and non-utility affiliates). Alliant Energy's senior management and Board of Directors have decided to develop an enhanced training program for all employees on the company's code of conduct.

In Alliant Energy's responses there is no evidence of any formal or informal affiliated interest polices and procedures. Reliance on internal contract review and approval processes or generic policy and procedures regarding ethics and corporate code of conduct are not acceptable replacements for clear and specific affiliated interest policies and procedures. Training tailored specifically to affiliated interest regulatory requirements and specific affiliated interest policies and procedures (formal or informal) that communicate those regulatory requirements and the consequences of failure to meet them are both necessary and prudent.

Failure of Alliant Energy's internal audit compliance check and lack of adequate or up-to-date master affiliated interest agreements is discussed later in this document.

Affiliated Interest Policies and Procedures Audit Recommendations

1. Alliant Energy should develop clear and specific affiliated interest polices and procedures. Those policies and procedures can then be integrated with the other policies and procedures dealing with other functions and subjects such as internal contract review and approvals. Affiliated interest training should be integrated into the enhanced training program for all employees on the company's code of conduct.

II. COST ALLOCATION METHODOLOGIES

Documented cost allocation methodologies provide for the appropriate allocation of common and joint costs between affiliates. Cost allocation methodologies should meet applicable legal, regulatory and contractual requirements and should be consistently followed by all affiliates.

[5] Projects can be focused on a particular activity, program, or service or much broader review of existing compliance requirements.

A. Documentation

Commission staff requested copies of affiliated cost allocation manuals, a description of Alliant Energy's system of accounting for affiliated transactions, including allocation procedures and the basis for such allocations, and a current copy of the accounting procedures manual.

Alliant Energy's holding company structure includes a service company that provides general and administrative services to the various family members. The service company structure and the certain accounting requirements were required by the United States Securities and Exchange Commission (SEC) under the Public Utility Holding Company Act of 1935 (PUHCA 1935).

The Company stated that the costs incurred by the service company are allocated in accordance with the two service agreements, the "Master Service Agreement – Utilities" and the "Master Service Agreement – Non-Utility" approved in Commission dockets 6680-AU-112 and 6680-AU-113.

The master service agreements in dockets 6680-AU-112 and 6680-AU-113 are inadequate and dated. Alliant Energy filed for revisions in July of 2003. Work on those revisions was put on hold at the company's request in November 2003. Alliant Energy filed a revised application in December 2004. Commission staff met with the company in April 2005 and requested additional information. In April 2006, after numerous inquiries into the status of the data requests, Commission staff spoke to the company and suggested that since the SEC language in the agreements needed to be rewritten that the request for approval should be withdrawn and revised agreements refilled. Alliant Energy requested a withdrawal of its application in August 2006 and has not refiled the agreements.

It is critical that Alliant Energy revise the master service agreements to reflect the repeal of PUHCA 1935 and the enactment of PUHCA 2005, the dramatic changes in its holding company system, and address the concerns that Commission staff have raised in several utility rate cases regarding holding company system costs, the general allocator and its application.

Reliance on the existing agreements is not prudent, does not ensure adequate compliance or address the Commissions concerns.

The company provided Commission staff with a copy of Alliant Energy Corporate Services Policies and Procedures manual.[6] The service company policies and procedures manual (14 pages) describes general accounting policies; services and/or functions; service company account number structure; operating unit and allocation factor revisions; monitoring and control; requesting services; payroll and time entry requirements; billing of service company costs; SEC pre-approval process; assets; internal audit control; dispute resolution; and support system.

The service company's policies and procedures manual adequately document the appropriate cost allocation methodology. While the manual is just the service company manual, the service company houses the majority of the employees in the holding company system and provides almost all of the administrative and general support to the utility systems. Alliant Energy uses a

[6] Alliant Energy stated that the manual will be updated to reflect any necessary changes resulting from the repeal of PUCHA 1935 and the enactment of PUHCA 2005. Those changes are expected to be immaterial.

PeopleSoft ERP system that is data rich but requires a certain expertise and even specialized computer software and programming to successfully mine that data. It is not clear given the company responses in this and other audits that Alliant Energy has the necessary software or adequate expertise to maximize the data and provide the necessary responses to the regulators and ultimately to provide the necessary information for corporate decision making.

Documentation Audit Recommendation

1. Alliant Energy should revise the master service agreements to reflect the repeal of PUHCA 1935 and the enactment of PUHCA 2005, the dramatic changes in its holding company system, and address the concerns that Commission staff have raised in several utility rate cases regarding holding company system costs, the general allocator and its application.

2. Alliant Energy should acquire the necessary software and expertise to extract data out of their PeopleSoft ERP system.

B. Allocation of Holding Company System Costs

As briefly discussed in A. above there has been an on-going disagreement between the company and Commission staff on use of the general allocator.

Per Alliant Energy's response in this matter: "The costs incurred by Alliant Energy's service company are billed in accordance with the two service agreements (Agreements)[7] that were approved by the SEC. The Agreements were also approved by the utility regulatory Commissions in Wisconsin, Illinois, Iowa, and Minnesota that regulate Alliant Energy's utility subsidiaries. The general ratio is calculated and utilized by Alliant Energy based on these Agreements. The Agreements state that the general ratio is, "based on the sum of all Service Company expenses directly assigned or allocated, based on allocators other than this "General Ratio," to Client Companies (excluding fuel, natural gas, purchased power, and the cost of goods sold) for the immediately preceding 12 consecutive calendar months, the numerator of which is for a Client Company or Function and the denominator of which is for all Client Companies(and Interstate Energy Corporation's non-utility and non-domestic utility affiliates, where applicable) and/or the Service Company. As used herein, "cost of goods sold" represents materials that are resold to ultimate consumer." The general ratio used by Alliant Energy is calculated in accordance with the Agreements. There are 24 allocation ratios utilized by Alliant Energy and its subsidiaries depending on the type of service provided. Each service has a pre-assigned and pre-approved allocation ratio included in the Agreements. Alliant Energy applies the general ratio depending on the type of service provided as defined in the Agreements. Also, it should be noted the utility business for Alliant Energy is the core business, thus, it is reasonable to expect a larger share of the allocated costs would be to the utility business."

For 2005 the general allcoator was 1.07 percent for Alliant Energy (the parent), 39.05 percent for WP&L, 54.28 percent for IPL and 5.6 percent for AER. Amounts allocated using the general allocator were 45 percent of the total costs allocated in 2005. It is not clear that it is appropriate

[7] These are the Agreements discussed in section A. above – the regulated and non-regulated master service agreements.

to allocate this final level of costs (those that can not be directly assigned or allocated on a cost causer basis) in a way that keeps the same relationship – the general allocator will track the way the majority of costs have been allocated.

In this audit Commission staff looked at the proportion of costs that are directly assigned verses allocated, both by entity and account. The following data is from the SEC Form 60. Indirect costs are those that are allocated in the billing process based upon formulas; indirect costs are the allocated costs including applicable loadings (facilities, non productive labor, payroll taxes and employee benefits).

	Operating Utilities	All Other Affiliates
Direct costs 2004	$237,753,280 (93.56% of direct)	$16,373,177 (6.44% of direct)
Indirect costs 2004	$71,723,186 (95.72% of indirect)	$3,207,903 (4.28% of indirect)
% of Total costs 2004	Direct - 72.25% Indirect - 21.8%	Direct - 4.98% Indirect - .97%
Direct costs 2005	$201,728,669 (93.72% of direct)	$13,523,067 (6.28% of direct)
Indirect costs 2005	$68,743,989 (94.51% of indirect)	$3,993,397 (5.49% of indirect)
% of Total costs 2005	Direct - 70.05% Indirect - 23.87%	Direct - 4.69% Indirect – 1.39%

The indirect costs are comprised of four categories; salaries and wages, employee pensions and benefits, rents and taxes other than income tax. Over half of the indirect costs relate to labor. It becomes critical that time reporting is closely monitored to ensure that all time that can be directly assign is and this pot of dollars is minimized.

Audit Recommendations Related to the Allocation of Holding Company System Costs

1. Alliant Energy should work with Commission staff to ensure that the general allocator is correctly designed and utilized. And that the pot of indirect costs is minimized.

III. AFFILIATED TRANSACTION PRICING

Appropriate affiliated transaction pricing should ensure that regulated utility customers are not disadvantaged. Using the lower of cost or market when the regulated utility is purchasing from the affiliate and the higher of cost or market when the affiliate is purchasing from the utility will accomplish this goal. Also a competitive bid process that is equitable to all qualified bidders will help to ensure appropriate affiliated transaction pricing.

A. Documentation

Commission staff requested copies of affiliate pricing and competitive bidding policies and procedures.

Alliant energy responded that it understands this question to request policies and procedures on pricing and competitive bidding for purchases between WP&L and its affiliates in the Alliant Energy holding company system. Generally, under Wisconsin law, no transactions between WP&L and any affiliates in the holding company system may take place unless they have been approved by the Commission. The determination of the price to be paid by or charged by WP&L in a transaction with an affiliate is likewise subject to at-cost or at-market standards imposed by Wisconsin and federal law and regulation and by various orders of the Commission, the Federal Energy Regulatory Commission (FERC), and (until February 2006) the SEC. The company responded that the following constitute their affiliated pricing policies and procedures:

When WP&L purchases services from an affiliate, it does so in accordance with corporate policies governing the selection of suppliers of goods and services. Those include the following: Alliant Energy Policy 111, Ethical and Legal Compliance Code of Conduct; Policy 133, Ethical Sourcing; Policy 136, Supplier Relationships and Selection; and Policy 143, Supplier Diversity. The policies are designed to ensure the primary criteria for selecting a supplier will be availability, cost, environmental and safety (ACES) and safety, service, quality, and financial performance (SSQF). Transactions between WP&L and its affiliates are subject to the terms and conditions of the Commission order approving such transactions.

Again there are no clear and distinct policies and procedures specifically addressing affiliated pricing and competitive bidding. Alliant Energy relies on individual affiliated interest contracts and their approval by the Commission as well as general corporate policies on ethics and code of conduct, sourcing, supplier relationships and selections and supplier diversity. Development of separate affiliated interest pricing policies that codified the regulatory and legal requirements and/or integration of those polices into the general corporate policies in this area would add clarification and avoid potential confusion.

Documentation Audit Recommendation

1. Alliant Energy should develop clear and distinct policies and procedures specifically addressing affiliated pricing and competitive bidding. Those policies and procedures should codify the regulatory and legal requirements. Alliant Energy should incorporate those specific policies and procedures into the company's general corporate policies on ethics and code of conduct, sourcing, supplier relationships and selections and supplier diversity.

B. Pricing and Competitive Bidding Policies and Procedures

Commission staff asked for documentation of compliance with pricing and competitive bidding policies and procedures related to affiliated related purchases; any analysis conducted to evaluate other alternatives in the market for service or product (availability, price, etc.); any value or cost-benefit studies performed by the company or the affiliate regarding goods and services provided to the affiliate and/or received by the utility; and any internal or external audit reports associated with this area.

Alliant Energy believes that its Corporate Accounting Policies, Corporate Policy 124 and Policy 111, Ethical and Legal Compliance Code of Conduct, which apply to all members of the holding company system ensures evaluation of compliance with pricing and competitive bidding policies and procedures. Corporate Policy 124 requires the Chief Accountant in each Business Unit or Division to be responsible for assuring that accounting practices in their respective areas follow U.S. Generally Accepted Accounting Principles (GAAP), have the necessary internal controls in place, maintain documentation of controls, assure compliance with controls and assure compliance with company disclosure controls and procedures. Corporate Policy 111 requires documentation of compliance with accounting policies and with all laws, rules, regulations and tariffs involving transactions between affiliates.

Additionally, because transactions between affiliates in the holding company system take place pursuant to formal contracts, the normal process of developing, finalizing and monitoring the contract is generally the vehicle for evaluating compliance with applicable pricing and competitive requirements.[8]

Commission staff asked the company to provide documentation of any analysis conducted to evaluate other alternatives in the market for the service or product (received or provided by/or to an affiliate) as to availability, price, etc. Commission staff also asked the company to provide value or cost-benefit studies performed by the company or the affiliate regarding goods and services provided to the affiliate and/or received by the utility.

Alliant Energy responded that there is no single compilation of the instances in which market alternatives to affiliated services were considered; such information could only be obtained by examining individual transactions and reviewing the decision making process in each case.[9] Alliant Energy states that for services provided through the service company, the periodic market price study is the primary analysis of market alternatives. Business units can identify services which are outside of the scope of those provided by the service company or services they believe could be obtained more cost-effectively from the market.

Commission staff asked for copies, or access to external audit reports associated with affiliated relationships as well as any audit work by the company's internal audit department of inter-company billings, cost allocations, or affiliated relationships.

Alliant Energy stated that for the audit period, 2004 to May 2006, Internal Audit did not perform any audit work on inter-company billings, cost allocation, or affiliated relationships. Commission staff reviewed the list of external audit work and did not find any pertaining to those areas for the time period under consideration.

Again, Alliant Energy is relying on general corporate policies and procedures to achieve specific affiliated interest compliance with regard to pricing and competitive bidding. Additionally, it is relying on the normal process of developing, finalizing, and monitoring the contract as the

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[8] Alliant Energy stated that for services provided by the service company to WP&L, compliance with pricing policies and procedures is an ongoing activity which receives constant attention (periodic market price analysis, regular reviews by inside and outside auditors).

[9] For services or goods that WP&L receives from:

RMT – each project should involve either a competitive bid analysis or documentation on why RMT is the most cost –effective alternative (large percentage are competitively bid).

Alliant Energy Generation/Sheboygan Falls – analysis of market alternatives was part of Commissions consideration and approval of the agreements.

ReGenCo- only on lowest bid in a competitive bidding process.

vehicle for evaluating compliance with applicable pricing and competitive requirements. Alliant Energy stated that this monitoring is an ongoing activity involving periodic market price analysis and regular reviews by inside and outside auditors.

The fair market study, discuss in detail later in this report, only deals with transaction between the service company and its affiliates, not between the affiliates themselves. Additional, for the period 2004 to May 2006 neither internal audit nor outside auditing firms performed any audit work in this area.

Pricing and Competitive Bidding Policies and Procedures Audit Recommendation

1. Alliant Energy should develop a structured method of monitoring compliance in this area. In the alternative if the monitoring is actually taking place then a method to document that occurrence.

2. Alliant Energy should develop a periodic market price analysis for service performed between the utility and its affiliates or the utility in the provision of competitive services.

C. Fair Market Value Study

Commission staff asked for the most recent market price study which serves as a basis for properly charging the holding company, sub-holding companies, or other non-utility affiliates for services performed by the utility. A market price study is a specific requirement of the Commission order in docket 6680-UM-100 (merger docket item 24) – "WP&L shall conduct a periodic market price study, for goods and services it received for Services which allows an assessment of whether WP&L could have acquired the services at a lower market cost from non-affiliated providers, or whether WP&L could have provided the service itself at lower cost.

Alliant Energy does the study on a biennial basis; the most recent completed study reviewed in this audit was for 2004. The purpose is generally to access how the cost of the services the service company provides its affiliates compares to comparable services provided by non-affiliates of Alliant Energy. The market price study contains a review of competitive compensation data using a variety of different professional survey sources and various functional specific surveys. Depending on the position, a geographic or industry match may be used along with general industry data to derive the internal rate for a specific position. Alliant Energy regularly performs a market study for all of its non-bargaining positions (updated annually for each position).

Alliant Energy's fair market value study is adequate to access how the cost of the services the service company provides its affiliates compares to the market. As indicated in the master service agreement, the costs of doing a FMV analysis should be charged to Alliant Energy.

Fair Market Value Study Audit Recommendation

1. Alliant Energy should be prepared in the next holding company audit to provide detailed back-up supporting the fair market value study.

IV. INTERNAL AUDIT DEPARTMENT AND FUNCTION

A. Internal Audit

Commission staff asked for a listing of projects, activities, and investigations of the Internal Audit staff including any associated work papers and reports. Additionally, Commission staff requested a list of any projects, activities and investigations that were conducted by any outside accounting/auditing firm for any of the entities in the Alliant Energy holding company system. The time period covered in both instances was January 2004 to May 2006.

Commission staff reviewed the listings and did a more complete analysis for 29 of the internal audit projects listed. Commission staff also interviewed the head of internal audit, audited the staffing, lines of communication and independence of the internal audit department. Alliant Energy's internal audit department has experienced auditors[10] and the independence necessary to adequate review internal control for the holding company system.

However, page 11 of the Alliant Corporate Services Policies and Procedures Manual states:

> The AECS internal audits department will conduct audits of the service company system every two years. Computer systems, billings and source documentation will be examined to ensure the services being provided are authorized, documented and accurately recorded in the books and records of AECS, Alliant Energy, the operating companies and/or the diversified companies. The internal audits department will also examine the allocation factors to ensure such methods comply with those approved by the SEC. In addition, service company policies, operating procedures and controls will be evaluated annually. The internal audits department reports to the Vice President of Strategy & Risk and has independent access to the Audit Committee of the Board of Directors at any time.[11]

In answer to a question regarding Internal Audits' review of affiliated transactions and cost allocation Alliant Energy stated that for the period January 1, 2004, to June 26, 2004, the Internal Audit department had not performed any audit work of inter-company billings, cost allocation, or affiliated relationships. Commission staff's review of the audit listings both internal and external did not indicate any such review.

Section VII Miscellaneous, E. Turbines contains a discussion of audit finding that relates to internal audits control of audit files.

Internal Audit Recommendation

1. Alliant Energy should ensure that the internal audit department has the resources necessary to conduct audits of the service company every two years or more often if necessary; as well as the annual audit of service company policies, operating procedures and controls.

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[10] Compliance with Sarbanes Oxley has added significant work load, particularly in the initial years. Internal audit contracts with outside audit firms to supplement staffing when needed.

[11] AECS is the service company referred to elsewhere in this report as Services.

2. Alliant Energy should ensure that the internal audit department has the resources necessary to review affiliated relationships, inter-company billings and cost allocations, within and without the service company.
3. Alliant Energy's internal audit department should include the reviews discussed in recommendations one and two in their audit plan and the management and audit committee of Alliant Energy should ensure that those audits are undertaken as planned.
4. Alliant Energy should ensure that the internal audit department follows its policy and procedures regarding sensitive audit files; internal audit and legal should have complete files.

V. EFFECT OF AFFILIATED RELATIONSHIPS

Diversification activities that affect utility operation, management functions and cost of capital should not have a detrimental impact on ratepayers.

A. Documentation

Management

Commission staff asked for documentation of WP&L's and Services management structure. Alliant Energy referred back to the summary organizational chart provided in response to another question.

The summary organizational chart illustrates the management structure of the holding company system; it is organized by function[12] not legal entity. Nothing on the chart indicates which legal entities the various management personnel are assigned to. Alliant Energy did provide a separate listing by legal entity of the directors and officers. The management structure of WP&L and Services is composed of officers from numerous functional areas; they are responsible and report to the head of that functional area not the head of the legal entity. For example Barbara Swan is the Executive Vice President and General Counsel to Alliant Energy (the parent holding company), the President of Services (the corporate service company), the General Counsel to Alliant Energy Resources, Inc. (the non-regulated sub-holding company), the Executive Vice President and General Counsel to Interstate Power and Light Company (the Iowa utility),and the President of WP&L (the Wisconsin utility). She is also the head (Executive Vice President and General Counsel) of the external relations functional group. The only people directly reporting to her are those in the external relations group. So, while she is the president of WP&L, she has direct command and managerial oversight over a much smaller and more homogeneous group of employees.

This structure provides clear and distinct lines of communication and management oversight by function. However, it does blur the distinction among and between legal entity and therefore between regulated and non-regulated.

[12] Energy delivery, generation, strategy and risk, technical and integrated services, shared services, international, financial, external relations, and new energy resources.

Executive and Director Compensation

With the significant divestiture of the non-regulated businesses the Alliant Energy holding company system has decreased in size, complexity, and risk.[13] The current executives/directors pay and compensation is based on that larger, more complex, and riskier entity. This change in corporate structure requires realignment of executive/director pay and compensation to fit the profile of the current holding company system. It is not reasonable for the utility to simply pick up a bigger portion of a compensation package that was designed for a much more complicated and challenging entity.

Employee transfers

Commission staff requested a list of WP&L employee transfers to and from subsidiaries, separated between management and non-management, for calendar years 2004 and 2005. There were a minimal number of transfers (16) during the two-year period. For transfers into WP&L from subsidiaries 7 were non-management and 6 were management. For transfers out of WP&L and into subsidiaries 11 were non-management and 5 were management. There does not appear to be a significant movement of personnel from the utility to the non-utilities or vise-versa.

Customer Information

Commission staff requested copies of the policies and procedures for allowing affiliated access to WP&L customers through collocation, referral, or shared data bases.

Alliant Energy stated that all access to WP&L customer information is restricted in accordance with applicable laws and regulations and in accordance with Alliant Energy Policy POL 155 Privacy and Handling of Personal Data. Affiliated entities are subject to the same restrictions on access to customer information as are unaffiliated parties.

POL 155 states that "personal data is not to be disclosed except under the provision of this policy and is not to be disclosed for non-Alliant Energy marketing purposes. Disclosure among Alliant Energy subsidiaries is made in accordance with applicable regulations." From this statement it was unclear that there was the proper separation between non-utility and utility. Commission staff asked for clarification. Alliant Energy replied that utility customer data bases are kept separate from other data bases. Only authorized employees have access to customer information and only for utility related purposes. Customer-identifying information is not made available for non-utility purposes whether the requester is within the Alliant Energy corporate family or is an unaffiliated entity. The Legal department consistently advises all personnel that utility customer information can not be shared (without the customers consent) outside the utility.

Intangibles

Commission staff requested copies of the policies and procedures for compensating the utility for the affiliate's use of intangibles, such as trademarks and name identification.

Alliant Energy's response addressed the benefits they believe are derived from the service company. This doesn't respond to the question. In Alliant Energy's case, the holding company

[13] The divestiture of non-regulated investments took place during the period under consideration but was more significant in the 2006-early 2007 timeframe.

name is used as a brand or trademark; WP&L does business as Alliant Energy. All costs associated with the "Alliant" trade name, trademark or logo should remain at the holding company level. Care should be taken in the use of the "Alliant" brand that the unregulated subsidiaries don't gain a competitive advantage by use of a trade name, trademark or logo that implies a connection, access, warranty, or guarantee to or by the utility, that does not exist.

Information Technology

Commission staff asked for copies of the policies and procedures for sharing technology with affiliates. Alliant Energy replied that each of the affiliated entities have their own separate information technology function. Any technology sharing is governed by the Confidentiality of Information Policy (POL 100). The policy covers trade secrets, information, software, and other items deemed as confidential.

Confidentiality of Information Policy (POL 100) is an Alliant Energy Corporation Policy that applies to the employees of Services, WP&L, IPL and AER with other subsidiaries being able to adopt or modify the policy at their discretion. The policy talks about company information and does not make any distinction between the utilities and AER. Commission staff asked how the policy was presented to employees and what is done to insure that confidential utility information is not shared with AER, since the policy talks about Alliant Energy information (corporate or company). Alliant Energy's response was that since this policy is applicable to not only Alliant Energy as a company but also WP&L, IPL, and AER that it does provide the policy of segregation for such legal entities. They also refer to the Ethical and Legal Compliance Code of Conduct (POL 111) as providing additional direction.

Many of Alliant Energy's policies are corporate in nature and do not make a clear distinction between the separate corporate entities. In this particular case the policy in question deals with general confidentiality and information technology specifically and is not sufficiently clear that there is a distinction between utility and non-utility.

Documentation Audit Recommendation

1. Alliant Energy should take care that management maintains the distinction among legal entities and between regulated and non-regulated.

2. Alliant Energy should take care that the use of the "Alliant" brand that the unregulated subsidiaries don't gain a completive advantage by use of a trade name, trademark, or logo that implies a connection, access, warranty, or guarantee to or by the utility, that does not exist.

3. Alliant Energy should clarify its POL 100 so there is a clear distinction between utility and non-utility confidentiality and information technology.

4. Alliant Energy should realign its executive/director pay and compensation packages to fit its new corporate profile.

B. Asset Cap

Wis. Stat. § 196.795(6m)(b)[14] establishes a limit on holding company investments in non-utility assets. The Commission's order in docket 6680-UM-100 provides that the sum of the assets of all non-utility affiliates in the Alliant Energy system may not exceed the sum of 25 percent of the combined assets of the gas, electric and steam utilities.

1999 Wisconsin Act 9 created Wis. Stat. § 196.795(6m)(e) in October 1999. Wis. Stat. § 196.795(6m)(e) provides a public utility holding company partial relief from limits on non-utility assets it may own if the electric utilities in the holding company system transfer their electric transmission facilities to a separate transmission company under Wis. Stat. § 196.485(5)(b).

Effective on November 5, 1999, transferred their electric transmission system assets to American Transmission Company LLC (ATC) in exchange for equity interests in this new company. As a result of the transfer of these assets, Alliant Energy meets the criteria for the partial relief provided under Wis. Stat. § 196.795(6m)(e) from the limits on nonutility assets pursuant to Wis. Stat. § 196.485(5)(b).

As of December 31, 2005, total non-utility affiliate assets (including Alliant Energy) and excluding "eligible assets," pursuant to Wis. Stat. § 196.795(6m)(e), were 7.02 percent of total utility assets as calculated by Alliant Energy. Commission staff reviewed Alliant Energy's calculations and adjusted Alliant Energy's calculation to eliminate assets of Nuclear Management Company and WP&L's allocated share of the assets of Services. These assets are considered as eligible assets and are properly excluded from the non-utility assets in determining the asset cap limitation. However, these assets are held by non-utility affiliates, not by the public utility, and therefore do not qualify for addition as utility assets. In effect these assets are removed from both the numerator and the denominator for purposes of the asset cap calculation.

Total non-utility assets as of December 31, 2005, were $2.549 million including eligible assets of $2.064 million. Eligible assets are not included in the asset cap calculation.

Documentation Audit Recommendation

1 Alliant Energy shall adjust its calculation of the asset cap to reflect Commission staff's approach – excluding the Nuclear Management Company and WP&L's allocated share of the asset of Services form both the numerator and the denominator.

VI. SMALL BUSINESS AND COMPETITIVE CONCERNS

Wis. Stat. § 196.795(5)(dr) prohibits a public utility from providing any nonutility product or service in a manner or at a price that unfairly discriminates against any competing provider. An unfair competitive advantage can be achieved by subsidization by the utility of nonutility affiliates or programs[15] either through misallocation of costs or access to market sensitive information. Unfair discrimination or competitive advantage can also occur if nonutility

[14] In 1999 Wisconsin Act 9, Wis. Stat. § 196.795(5)(p) was renumbered Wis. Stat. § 196.795(6m)(b).
[15] Provision of non-utility goods or services within the utility, whether above or below the line.

products or services are tied in any manner to either the provision of utility services or the interpretation of what constitutes utility service.

The analysis performed in the course of this audit used portions of the Commission's small business competitive activities and services audit plan. The focus of this portion of the audit was a review of cost allocation methodologies to ensure appropriate allocation of costs between the utility and any nonutility activities both above and below-the-line.

A. Documentation

Commission staff asked for a listing of all utility (above and below-the-line) and/or non-utility affiliate programs, activities, products and services having potential small business implications. In addition, Commission staff requested the following information relating to the above programs: a description of the procedures used to identify and accumulate costs applicable to the identified activities; a description of how the budgets related to those activities are developed, including the assumptions used to project budget period data and to develop company pricing strategy; and a summary comparing budgeted charges and revenues to actual for the identified programs and activities for 2004 and 2005, including an explanation for any material variances.

Alliant Energy's response contained 13 such programs or services described as follows:

Power System Services – a turnkey approach to the design, engineering, construction and maintenance of customer's high voltage infrastructure including substations, transmission lines, distribution lines, and standby generators. This program is provided through the utility and margin is recorded below-the-line.

Energy Options – an outsourcing alternative for those seeking to divest themselves of non-value-added infrastructure investments and associated maintenance and operating responsibilities. Energy Options offers no capital investment, reduced risk and includes maintenance and fuel costs. This program is provided through the utility and margin is recorded below-the-line.

Impact Lighting – offers the design, materials, installation, maintenance, and financing of (decorative) lighting poles and fixtures for city streets, parking lots, parkways, and sports field venues. This program is provided through the utility and margin is recorded below-the-line.

Energy on Demand – Standby Generation – offers customer's standby generation products and services offered by a variety of manufacturers, includes genset sales, maintenance contracts, contingency plans, disaster plans, and extended warranties. This program is provided through the utility and margin is recorded below-the-line.

Sales Tax Exemption – offers Sales Tax Exemption services to assist Wisconsin manufacturing customers in determining the correct percent of energy purchases that are sales tax exempt as well as filing for refund from the Wisconsin Department of Revenue for past overpayments. Energy sources can be electricity or natural gas. This program is provided through the utility and margin is recorded below-the-line.

Fleet Services – consists of inspection, maintenance and repair of customer utility and mobile hydraulic type equipment, including the sale of related parts. This program is provided through the utility and margin is recorded below-the-line.

Wind Connect – developed a marketing niche with wind farm developers providing: project management, project design, collector construction, substation construction, and transport system construction for wind farms that have electrical turbines. At the time of the first company response (May 12, 2006) this program was provided through the utility and the margin was recorded below-the-line. At the time of report finalization (May 2007) the program is provided by an affiliate, Alliant Energy EPC, LLC (established in May 2004).

PowerCure – product line offers power quality services (PQ monitoring, grounding studies, power factor correction) and infrared scans to Alliant Energy's commercial and industrial customers. This program is provided through the utility and margin is recorded below-the-line.

SureStop – product provides residential customers with a meter based surge limiter device. At the time of the first company response (May 12, 2006) this program was provided through the utility and the margin was recorded below-the-line. This product was discontinued on April 1, 2007.

Service & Repair – provides two services for natural gas customers: Security Blanket, a service and maintenance plan covering the cost of labor, materials, and 24-hour, 365-day service for emergency repairs and provides for annual preventative maintenance measures. Repair services (HVAC) are sold on a time and materials basis to customers not participating in Security Blanket. This program is provided through the utility and margin is recorded below-the-line.

Appliance Protection Plan – provides customers with appliance repairs for kitchen, laundry, and heating/cooling equipment. This program is provided through the utility and margin is recorded below-the-line.

Secure Plus – a home and small business monitored security system. At the time of the first company response (May 12, 2006) this program was provided through the utility and the margin was recorded below-the-line. The product line is in the process of being sold with a target closing is May 1, 2007, at which time Alliant Energy will no longer be providing the product line.

AE Connections – a service which allows our customers to make one call to turn on other home services. Alliant Energy; in partnership with a home services provider, Allconnect, Inc., offers customers this service. Alliant Energy customer service coordinators transfer all eligible residential new service turn-on orders to Allconnect. Allconnect completes a quality assurance check on the order, and then offers the customer other home services, such as telephone, Internet, cable TV, and newspaper delivery. This program is provided through the utility and margin is recorded below-the-line.

Costs are identified and accumulated by the fields in the account string used to record the transactions (Project ID, Activity ID and Product Code). New project ID's are assigned to each individual job. Alliant Energy adds a project ID each time they sell a product or service.

Activity ID's identify the individual work task or events that are completed as part of a project (if initiated from the work management system they are unique to each project). There are literally thousands of projects and even more activities associated with the 13 programs listed above. All projects are assigned a project type in order to group similar types of projects; the project type determines which activities can be charged.

Alliant Energy stated that budgets for Value Added Products and Services (VAPS)[16] for 2006 were based primarily on 2005 actuals adjusted for expected labor and material increases (main components – outside services/ contractors, internal labor and vehicles, sales and technical support salaries). Prices are based upon what the market will bear given the circumstances of each specific project. Typically pricing is set on a cost-plus basis (raw cost plus utility overheads, plus minimum net margin of 15 percent).

Budgets are only prepared for direct charges. Budgets for account managed products including Power System Services, Energy Options, Impact Lighting, Energy on Demand, Sales Tax Exemption, Fleet Services, and Power Care are not available by each individual product.

It is possible to track these business lines and important to do so for all areas in which the activity level is material. These types of activities and programs should have sufficient information available so that corporate decisions can be made regarding profitability and liability. In addition to identifying programs or activities, it is essential that the Commission be able to determine that costs are being properly allocated and that the utility ratepayers are not subsidizing the non-utility activities of the utility or the holding company system thereby giving those entities a competitive advantage over their small business counterparts.

Alliant Energy's process tracks individual jobs or sales and then depends on a project type code to group similar types of projects. Without budgets prepared for the account managed products on an individual product basis no budget to actual comparison can be done.

Commission staff asked the company to demonstrate through use of a staffing plan, etc. how the utility has attempted to minimize the use of utility employees for non-utility purposes.

Alliant Energy stated that position descriptions provide the basis for determining the entity to which a position should be assigned. If a position description contemplates that more than five percent of the employee's time will be spent performing work on any non-utility purposes or for another utility in the Alliant Energy family, then that position is classified as a Services position or as a position with another utility, as appropriate.

The existence of the service company in some sense defeats the ability to minimize the use of utility employees (other than union or trades – linemen, etc.) for non-utility purposes. Essentially the majority of the employees can be service company employees providing services to both utility and non-utility subsidiaries. The belief is that this will lessen any inappropriate cross-subsidization. The reality is that it moves the concern from the where the employee is located to how the time is actually allocated.

[16] The 13 programs listed are value added products and services.

Documentation Audit Recommendation

1. Alliant Energy should develop methods for budgeting all value added products and services on an individual product and service basis.

VII. MISCELLANEOUS

A. Capstone Turbines

Commission staff asked about Alliant Energy's relationship with Capstone Turbines. AER Holding Company, a wholly owned subsidiary of AER, owns 1,464, 286 shares of Capstone Turbine Corporation. This constitutes 1.43 percent of the 102.74 million shares outstanding as of March 31, 2006. There are no contractual relationships between Capstone Turbine Corporation and any of the Alliant Energy Corporation family of companies. A previous distribution agreement expired March 14, 2005. Eliot G. Protsch, Senior Executive Vice President and Chief Financial Officer for Alliant Energy Corporation, is the Capstone Turbine Corporation board of directors Chair. Mr. Protsch is not a director or officer of AER; there are no other director or management relationships involving Capstone Turbine Corporation.

B. Tax Allocation

Commission staff asked for a copy of the current tax allocation agreement as well as details pertaining to tax deposit payments, taxable income and allocation of consolidated returns, tax credits and final tax liability.

Alliant Energy's tax allocation agreement and practice appear to comply with Internal Revenue Service and SEC guidelines. However, the tax allocation agreement has characteristics of an affiliated interest agreement. At the time this report is being written the issue of whether or not the tax allocation agreement is an affiliated interest agreement is under review by the Commission's legal staff.

C. Leases

Commission staff asked for details concerning any synthetic leases that Alliant Energy had, particularly the leases for the Madison headquarters.

Alliant Energy has ten outstanding synthetic leases. WP&L is the lessee on five of the leases – four are for railcars and one is for IDEN radio dispatch system. Services is the lessee on two of the leases relating to the Madison headquarters building (one lease is funds the land and building – balance of $47.7 million and one funds furniture, fixtures, and equipment – balance of $4.5 million). IPL is the lessee on two leases for railcars. Iowa Land and Building Company is the lessee on one lease for an aircraft.

The lease on the Madison headquarters was up for renewal at the time of the field audit. Alliant Energy stated that it is expected that the lease will be renewed for another five-year term if satisfactory terms and pricing can be obtained for the renewal term.

Costs related to the Madison general office headquarters are allocated in accordance with the master service agreements. Madison headquarter costs are allocated to each legal entity based on the number of employees in the building. Total costs are accumulated for the facility and then are allocated based on a per employee charge. This cost per employee is developed into an overhead loading that is applied to each labor dollar. In the last holding company audit (2002-2003) Alliant Energy was directed to complete a study regarding office space allocation, comparing its current hybrid method with a square footage allocation. Alliant Energy states that it completed the study and verbally communicated the results to Commission staff on or after December 10, 2004; concluding that Alliant Energy planned to continue using its current hybrid method. When asked in this audit for a copy of the 2004 study Alliant Energy replied that after a search of their records they can not find a copy of the study or any documentation used for the verbal discussion with Commission staff.

With the downsizing of the holding company system (divestiture of international operations, etc.) vacant space at the Madison headquarters has increased. When asked how vacant space was handled Alliant Energy reiterated the method used for calculating the facilities charge stating that costs are not allocated based upon square footage or designated areas of the building. The company stated that evaluation of the feasibility of sub-leasing opportunities, evaluation of space allocation and results of moving other Alliant Energy operations from satellite leased buildings to the Madison headquarters and evaluation of the specific use of spaces for optimal allocations are on-going.

Audit Recommendations

1. Alliant Energy should redo the study regarding office space allocation, comparing its current hybrid method with a square footage allocation. The study should include the impact of downsizing. Alliant Energy shall file the completed study with the Commission as a compliance filing to this audit report.

2. Alliant Energy should review its procedures and documentation processes and determine why the original study and its supporting documentation cannot be found. This is an indication of lack of internal control and as such should be address in a prompt and through fashion.

D. PHONES

On February 1, 2000, Alliant Energy Resources (AER) issued 5,940,960 units of Participating Hybrid Option Note Exchangeable Securities (PHONES), resulting in gross proceeds to AER of $402,500,040. PHONES will mature on February 15, 2030, for an amount of cash equal to the greater of (1) the contingent Principal Amount, $402,500,040 or (2) the then current market value of a specified number of shares of Class A common stock of McLeodUSA (McLeod). PHONES represent senior unsecured indebtedness of AER; PHONES are not secured by any of the McLeod Class A common stock owned by AER or any of its affiliates or any other assets and are unconditionally guaranteed by Alliant Energy.

PHONES are contingent payment debt instruments for federal income tax purposes. The tax interest deduction is based on the IRS contingent payment debt regulations. This produces very significant cash timing differences and associated taxes due upon maturity. Alliant Energy's tax audit resulted in a confidential tax issue with the IRS regarding Alliant Energy's handling of PHONES for tax purposes.

Alliant Energy took a risky position – speculating that PHONES proceeds and tax generated cash flow invested internationally (China, Brazil, and Mexico) would generate sufficient funds to meet its PHONES obligations. The international investments failed; but for the intervention of the IRS and the McLeod bankruptcies (the zero value of the stock) Alliant Energy could still have owed the IRS a substantial sum of money. The IRS intervention and the two McLeod bankruptcies, not actions of Alliant Energy, effectively limited the risk and eliminated the tax liability. The end result is a low interest (2.5 percent) 30 year loan, instead of a very significant tax liability that had the potential to severely impact the holding company and therefore the utility.

Many of the key management of Alliant Energy remain the same. The Commission will need to monitor this situation to ensure that there is no impact on the utility as a result of PHONES and McLeod. It may be necessary for the Commission to monitor the security issuances at the holding company level closely to ensure that the utility is protected in the future from this type of risk.

Audit Recommendation

Alliant Energy should work with Commission staff to ensure that PHONES are accounted for in a reasonable manner; that the tax position is appropriate; and that the utility ratepayers are protected from any and all consequences of PHONES.

E. Turbines

In the review of Alliant's internal audits, Commission staff reviewed an audit involving turbines. Review of that audit raised issues related to Sarbanes Oxley reporting requirements, Alliant Energy's processes for handling SEC representation letters/whistleblower – violations of internal code of conduct and ethics, asset impairment and internal audit response and documentation.

Commission staff asked for all files dealing with the turbine issue. In the review of the files it was clear that they were not complete. Upon further questioning two more files turned up, those files were with the current and former head of internal audit. Internal audit has a policy that their work files never leave internal audit yet the former head had a file in this case and it was the only file with the impairment test work papers in it. Internal audit and legal should each have a complete file in this manner. If it is necessary for the former head of internal audit to have copies of his work papers in this manner they should be just that, copies. This lack of complete documentation indicates a material weakness in internal audit's internal control and in the internal control of Alliant Energy.

Audit Recommendations

Alliant Energy should within 30 days of issuance of this report file with the Commission the following:

1. The status of the steam turbine including an updated impairment test on just the steam turbine.

2. Documentation that Internal Audits recommendations in this manner have been followed.

3. A work plan or process to ensure complete documentation and maintenance of files both in internal audit and legal, including a procedure for documenting all contact with the SEC on Sarbanes Oxley issues.

4. Documentation of the internal process regarding representation letters, including procedures for resolving conflicts.

VIII. CONCLUSION

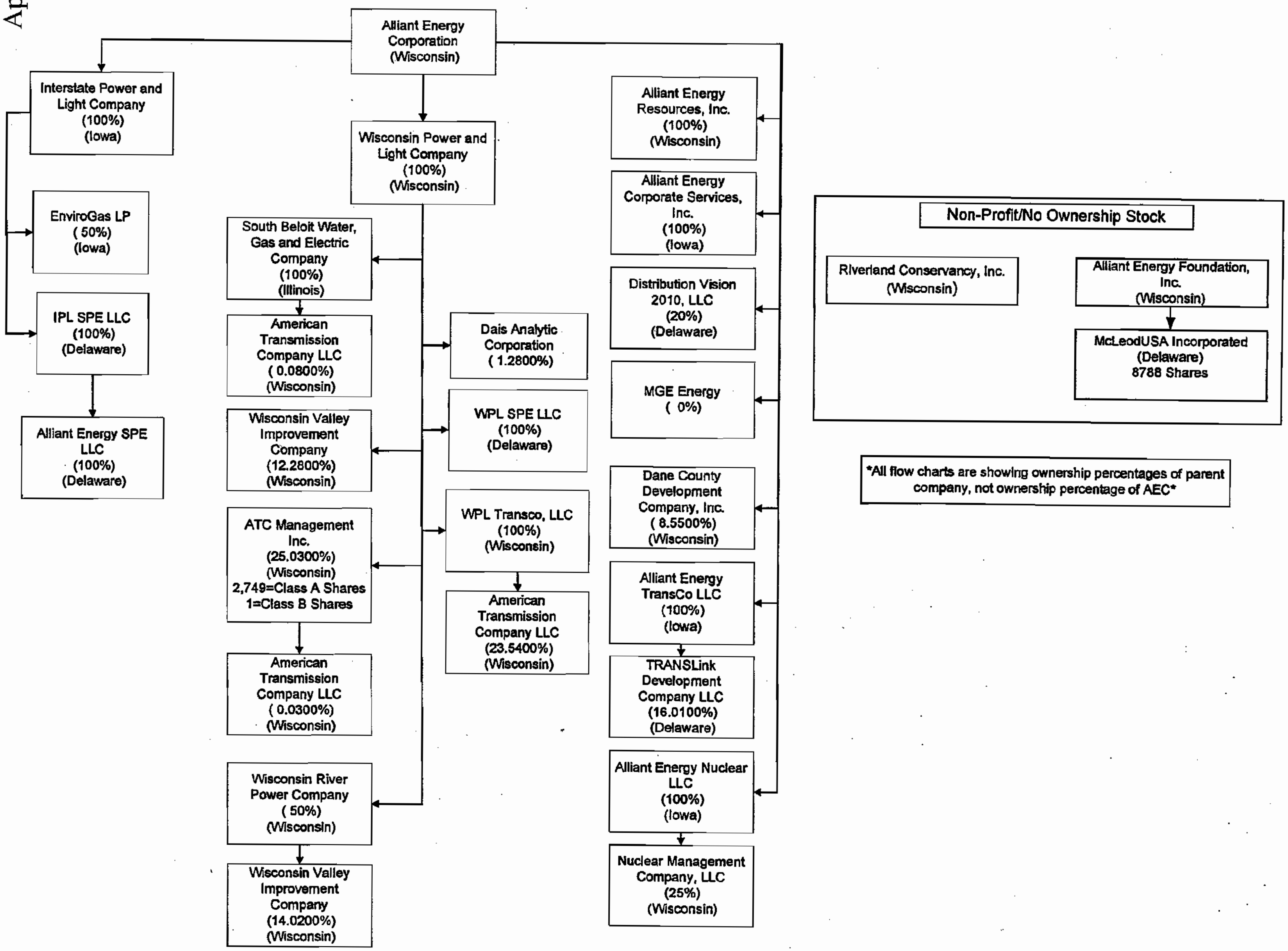
Processes need to be implemented to ensure ongoing compliance with statutes and Commission orders regarding affiliated interests and holding comply issues. This includes proper documentation, effective communication, and proper cost allocation.

As holding company systems change it is essential that the Commission's audit process change to ensure compliance with the statutes. This audit was an attempt to implement such changes. Further change can be expected as both the holding companies and the statutes that govern them evolve.

g:\holding company\reports\Alliant 2004-2005 Audit Report (full report) Marked Draft

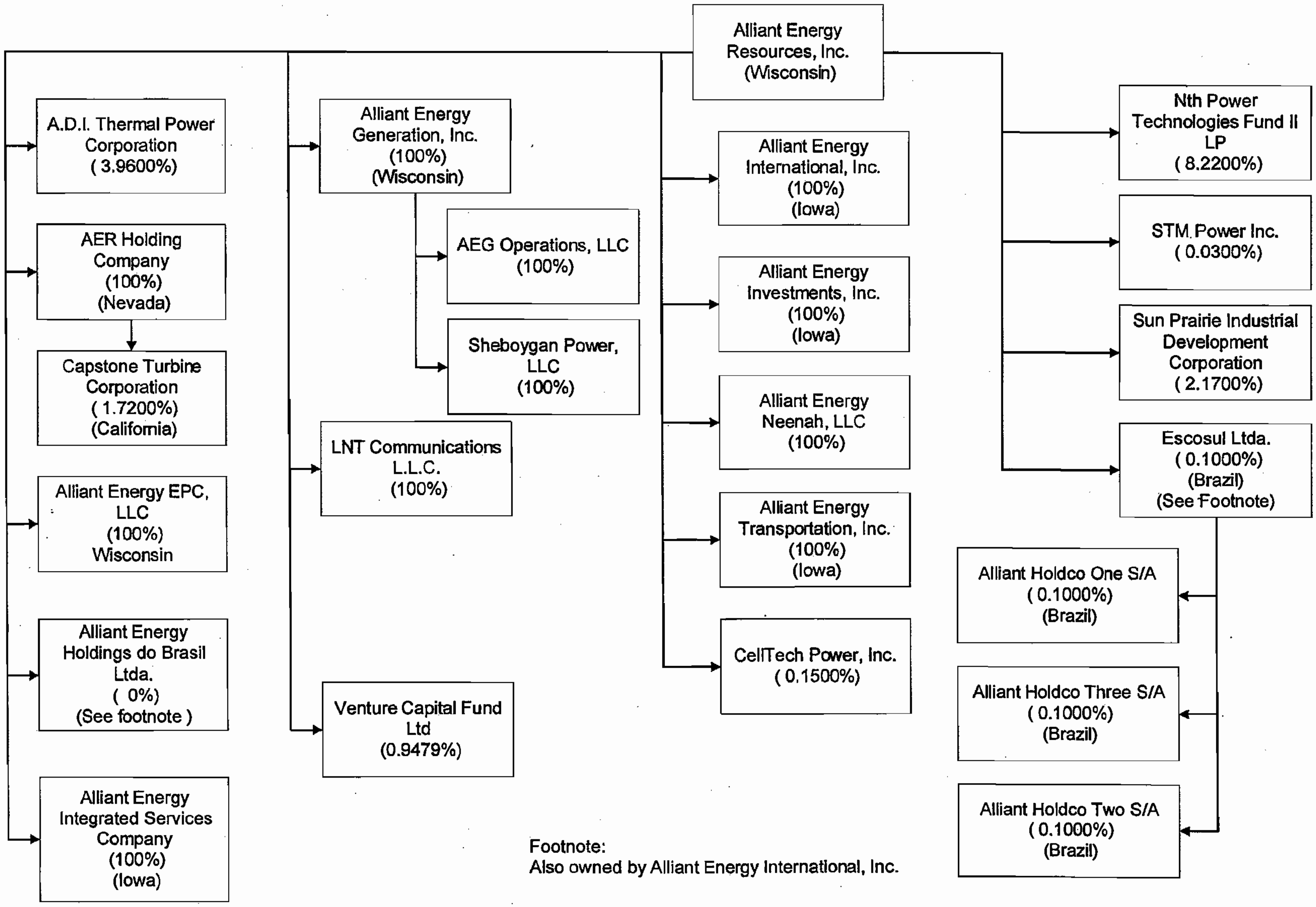
Appendix B
Part I

Subsidiaries of Alliant Energy Corporation
Effective Date: 12/31/2005
Created Date: 01/17/2006



Appendix B
Part I

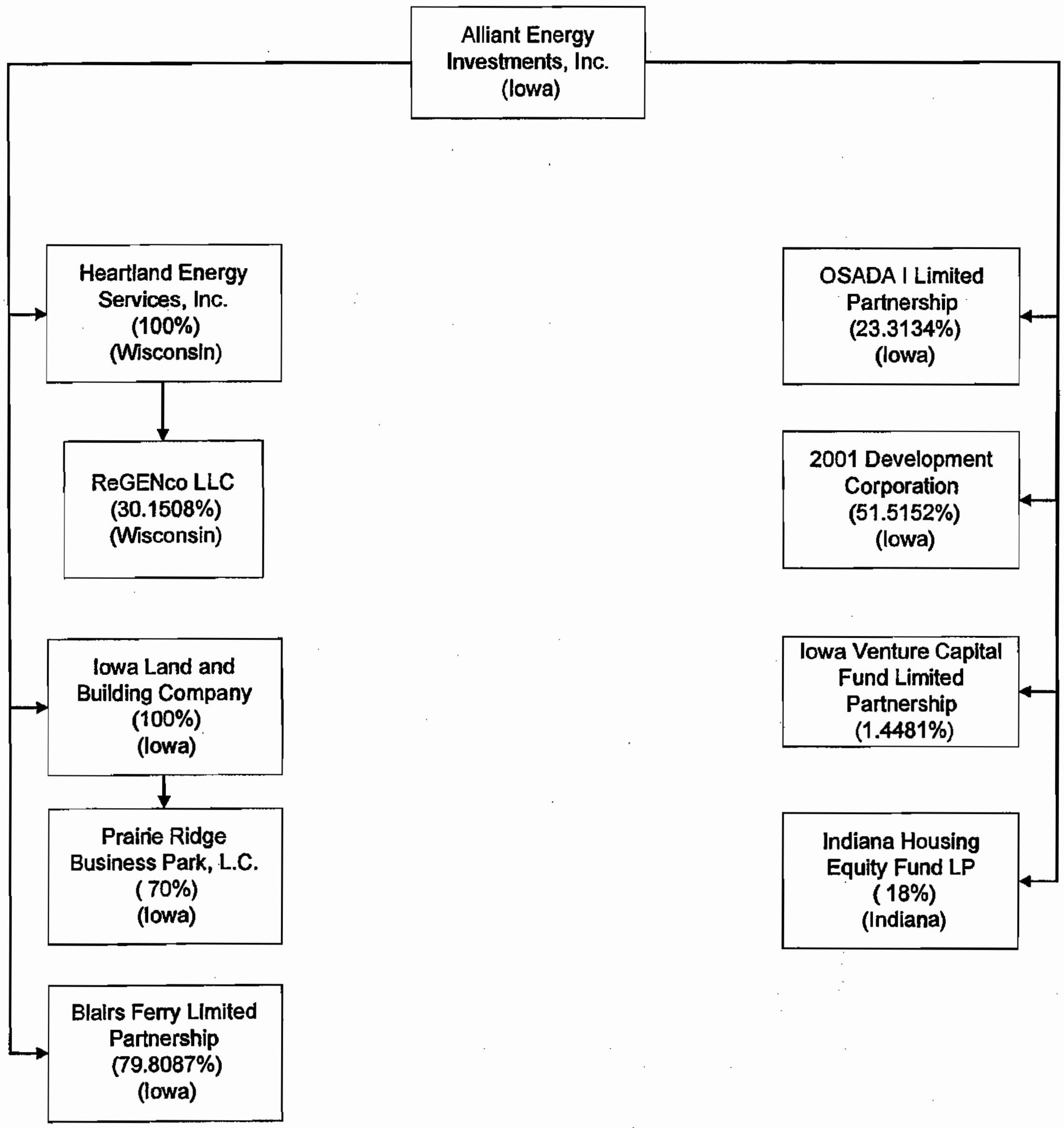
Subsidiaries of Alliant Energy Resources, Inc.
Effective Date: 12/31/2005
Created Date: 02/17/2006



Footnote:
Also owned by Alliant Energy International, Inc.

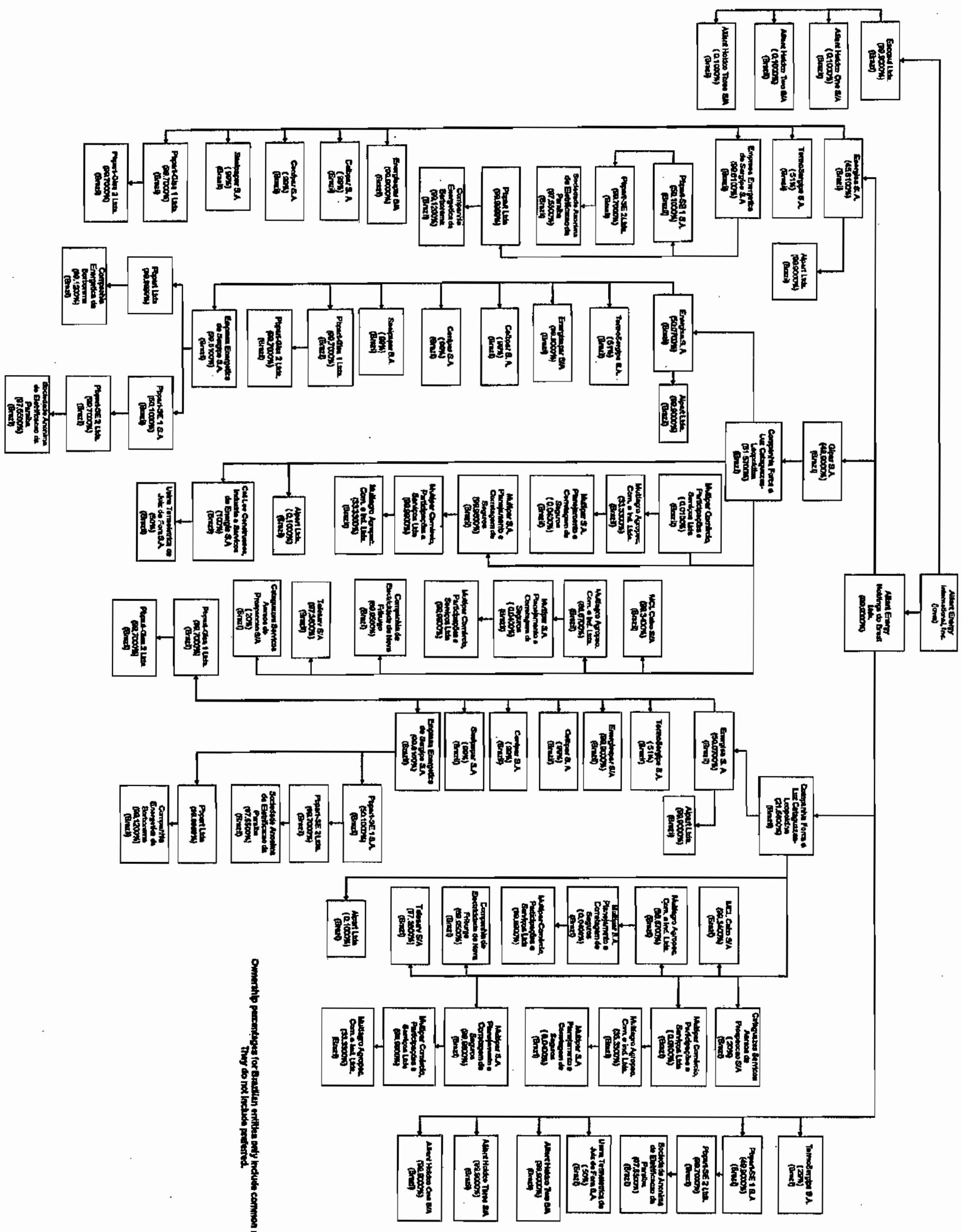
Appendix B
Part I

Subsidiaries of Alliant Energy Investments, Inc.
Effective Date: 12/31/2005
Created Date: 2/17/2006



Appendix B
Part I

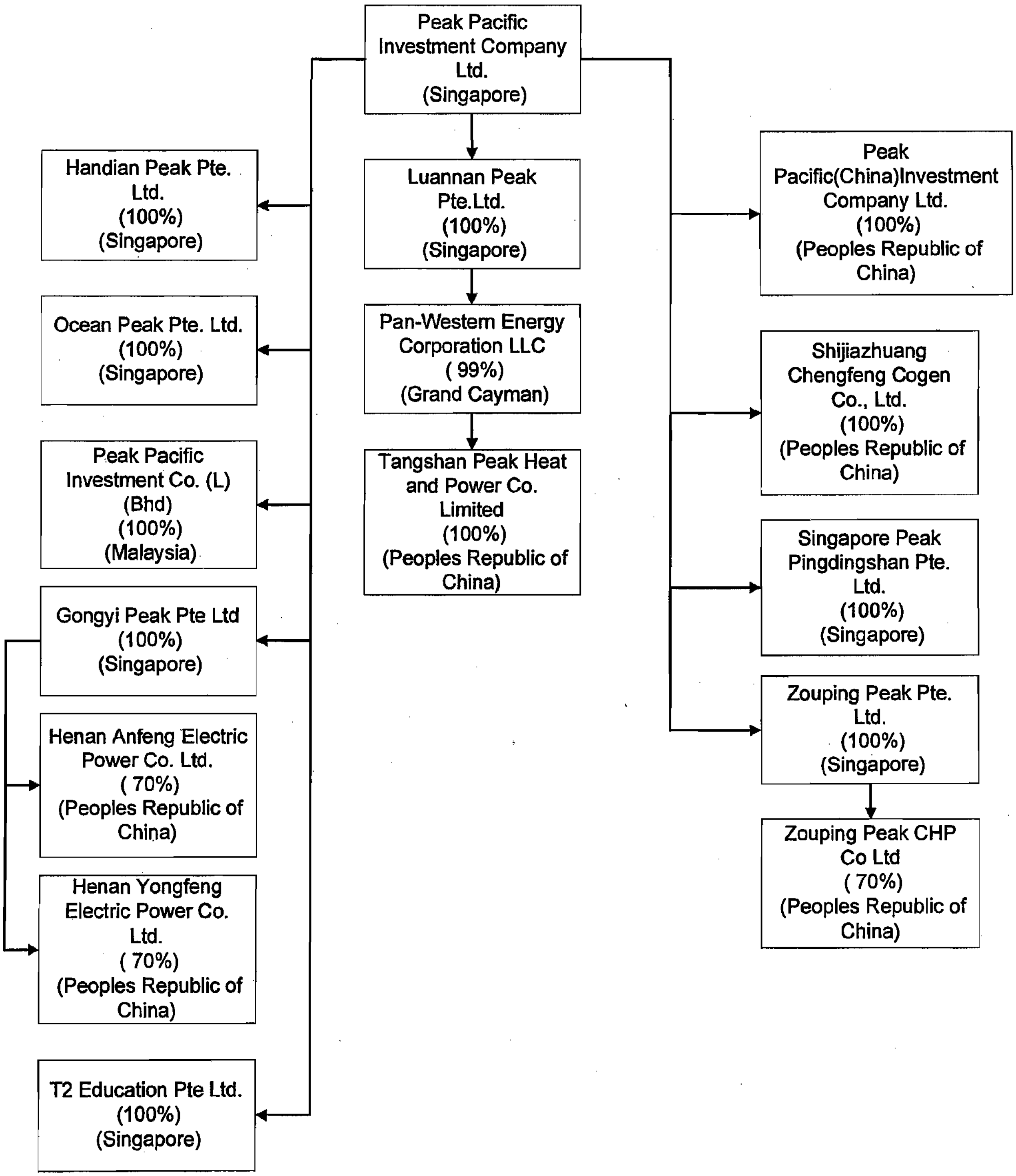
Subsidiaries of Alliant Energy International, Inc.
Brazilian Entities
Effective Date: 12/31/2005
Created Date: 01/17/2006



Ownership percentages for Brazilian entities only include common stock. They do not include preferred.

Appendix B
Part I

Subsidiaries of Peak Pacific Investment Company Ltd.
Effective Date: 12/31/2005
Created Date: 01/17/2006



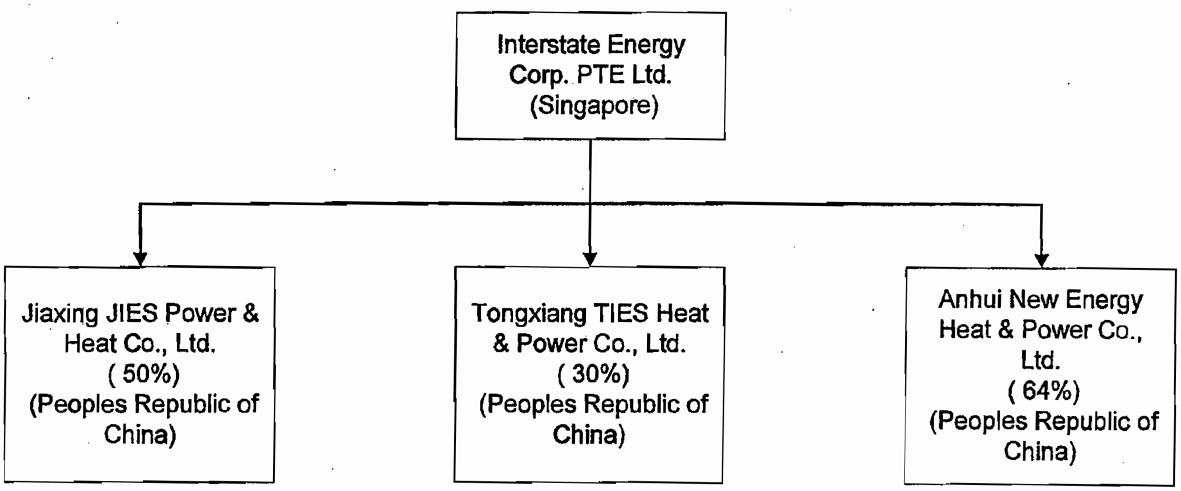
Appendix B
Part I

Subsidiaries of Alliant Energy International, Inc.
Effective Date: 12/31/2005
Created Date: 01/17/2006

- Alliant Energy International, Inc. (Iowa)
  - Alliant Energy Holdings do Brasil Ltda. (99.9000%) (See Footnote 3)
  - Alliant Energy New Zealand Limited (100%) (New Zealand)
  - Alliant Energy de Mexico LLC (100%) (Delaware)
  - Alliant Energy de Mexico, S. de R.L de C.V. (99.9700%) (Mexico) (See Footnote 1)
  - Escosul Ltda. (99.9000%) (Brazil) (See Footnote 2)
  - Interstate Energy Corp. PTE Ltd. (100%) (Singapore)
  - Jiaxing Jies IEC PTE. LTD. (100%) (Singapore)
  - LDM Electric Supply Co., S.A. de C.V. (0.1000%) (Mexico) (See Footnote 4)
  - LDM Utility Co., S.A. de C.V. (96.5820%) (Mexico)
  - Peak Pacific Investment Company Ltd. (90.9000%) (Singapore)
  - Sea Lagoons Developments, S. de R.L. de C.V. (99.9700%) (Mexico)
  - Alliant Energy South LLC (100%) (Iowa)
  - Tongxiang Ties IEC PTE. LTD. (100%) (Singapore)
  - Laguna del Mar RSC, S.A. de C.V. (0.1000%) (Mexico) (See Footnote 4)
    - Administradora Laguna del Mar, S.A. de C.V. (99.9000%) (Mexico) (see Footnote 4)
    - Laguna Del Mar, LLC (100%) (Arizona)

Footnotes:
1) Also owned by Alliant Energy de Mexico, LLC and Alliant Energy Inernational, Inc.
2)Also owned by Alliant Energy Resources, Inc. and Alliant Energy International, Inc.
3)Also owned by Alliant Energy Resources, Inc.
4)Also owned by LDM Utility Co., S.A. de C.V.

Subsidiaries of Interstate Energy Corp. PTE Ltd.
Effective Date: 12/31/2005
Created Date: 01/17/2006



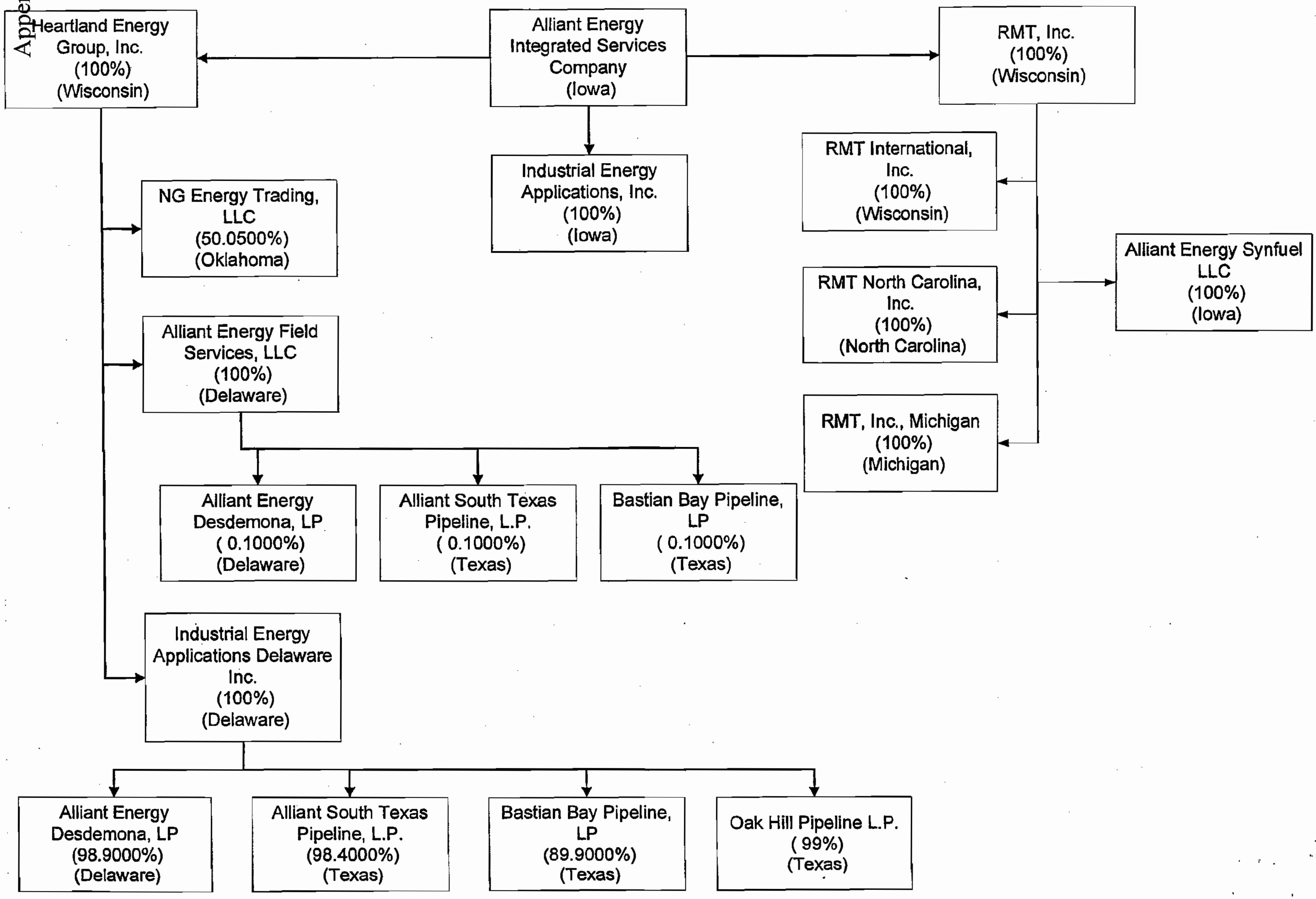
Appendix B
Part I

Subsidiaries of Alliant Energy Transportation, Inc.
Effective Date: 12/31/2005
Created Date: 01/17/2006

- Alliant Energy Transportation, Inc. (Iowa)
  - Transfer Services, Inc. (100%) (Iowa)
  - IEI Barge Services, Inc. (100%) (Iowa)
  - Williams Bulk Transfer Inc. (100%) (Iowa)
  - Cedar Rapids and Iowa City Railway Company (100%) (Iowa)

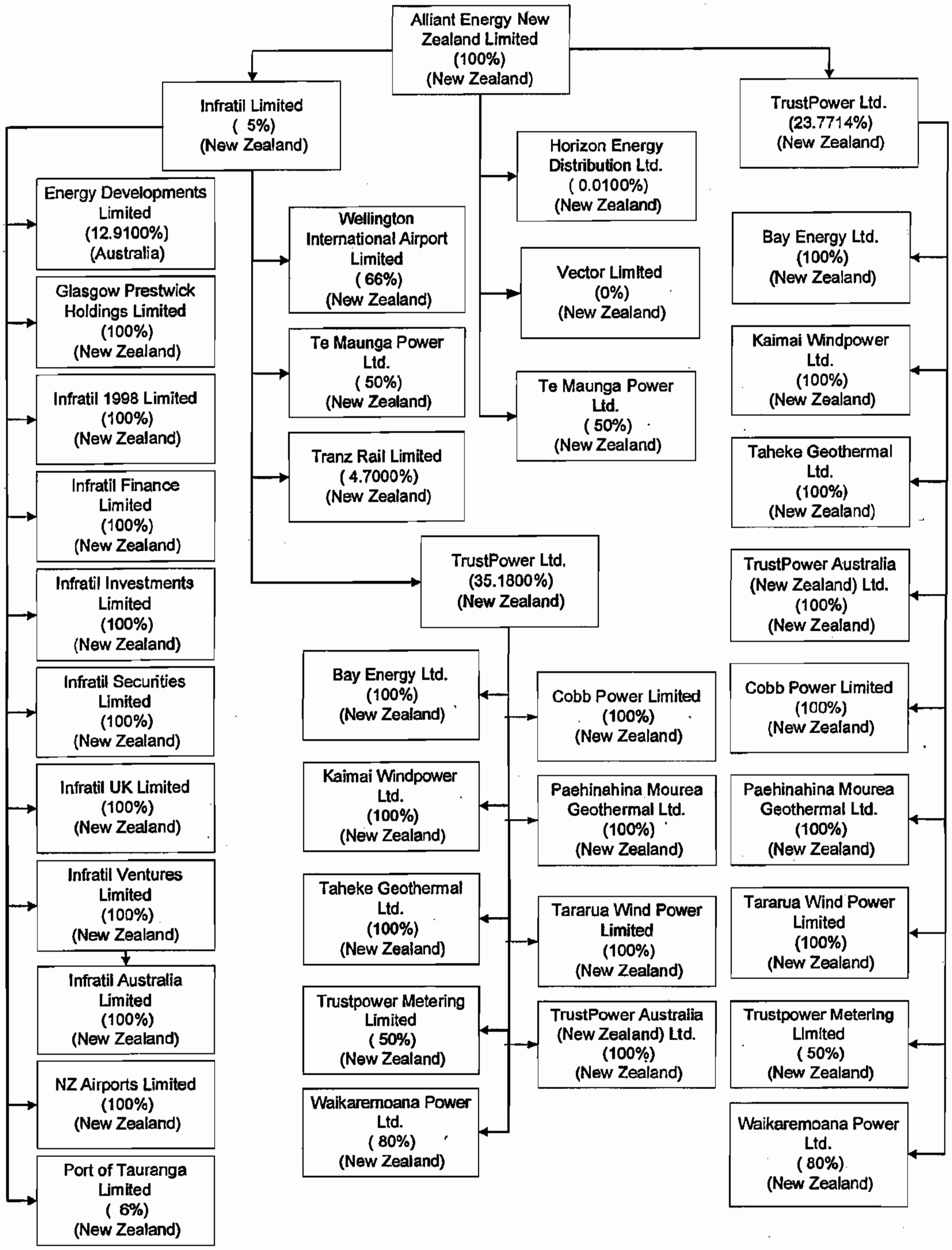
Appendix B
Part I

Subsidiaries of Alliant Energy Integrated Services Company
Effective Date: 12/31/2005
Created Date: 01/17/2006



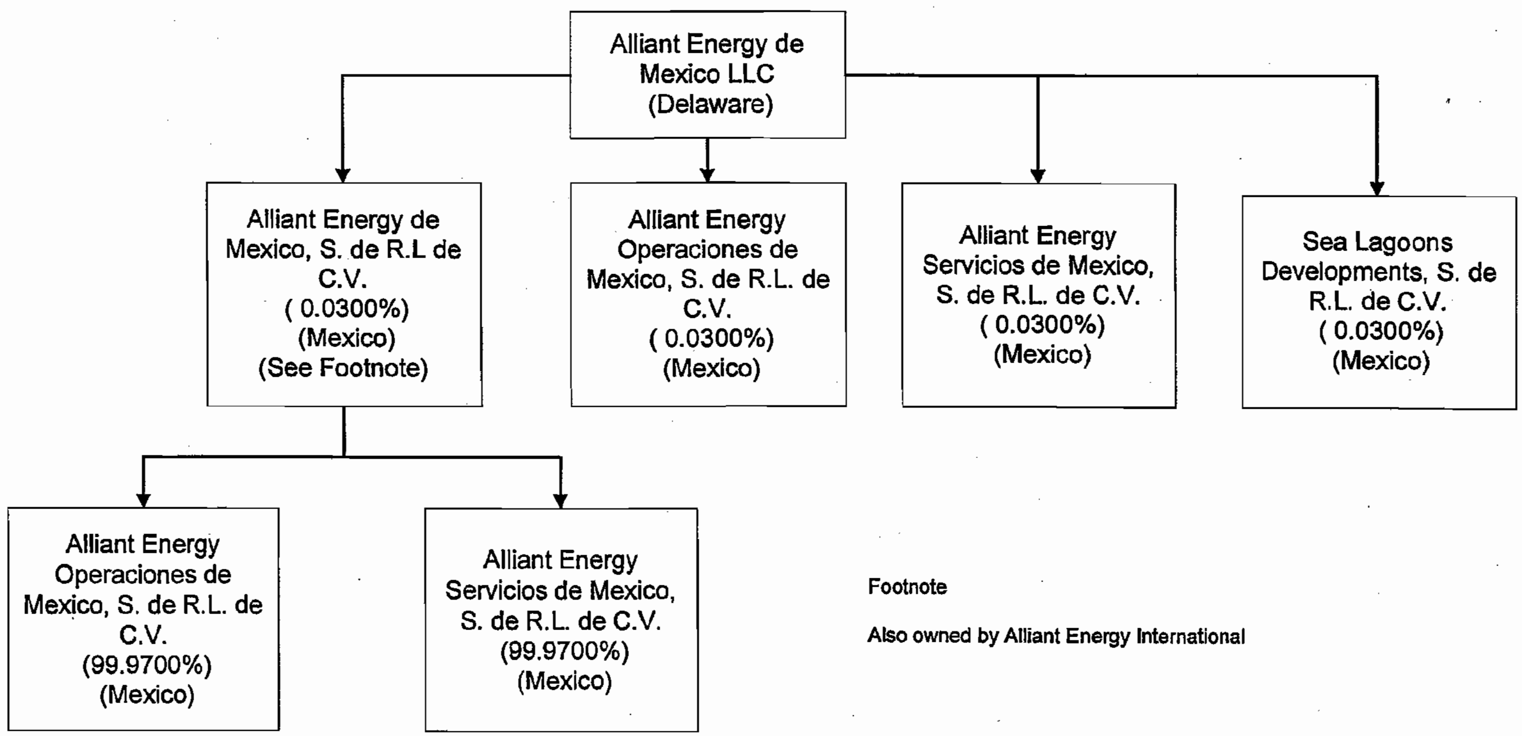
Appendix B
Part I

Subsidiaries of Alliant Energy New Zealand Limited
Effective Date: 12/31/2005
Created Date: 01/17/2006



Appendix B
Part I

Subsidiaries of Alliant Energy de Mexico LLC
Effective Date: 12/31/2005
Created Date: 01/17/2006



Footnote

Also owned by Alliant Energy International

Appendix B
Part II

Companies Disolved or Sold Since December 31, 2005

Company Name	*Page Reference*
South Beloit Water, Gas and Electric Company (100%) Illinois	1
American Transmission Company, LLC (.08%) Wisconsin	1
TRANSLink Development Company, LLC (16.01%) Delaware	1
Alliant Energy Nuclear LLC (100%) Iowa	1
Nuclear Management Company, LLC (25%) Wisconsin	1
McLeodUSA Incorporated (Delaware) 8,788 Shares	1
Alliant Energy Holdings do Brasil Ltda. (0%)	2
*(*And all subsidiaries detailed on page 4).*	4
LNT Communications LLC (100%)	2
Venture Capital Fund Ltd. (.9479%)	2
CellTech Power, Inc. (.15%)	2
STM Power, Inc. (.03%)	2
Escosul Ltda. (.10%) Brazil	2
Alliant Holdco One S/A (.10%) Brazil	2
Alliant Holdco Three S/A (.10%) Brazil	2
Alliant Holdco Two S/A (.10%) Brazil	2
ReGENco LLC (30.1508%) Wisconsin	3
Peak Pacific Investment Company Ltd. (Singapore)	5
Luannan Peak Pte. Ltd. (100%) Singapore	5
Pan-Western Energy Corporation LLC (99%) Grand Cayman	5
Tangshan Peak Heat and Power Co. Limited (100%) Peoples Republic of China	5
Handian Peak Pte. Ltd. (100%) Singapore	5
Ocean Peak Pte. Ltd. (100%) Singapore	5
Peak Pacific Investment Company (L) (Bhd) (100%) Malaysia	5
Gongyi Peak Pte Ltd. (100%) Singapore	5
Henan Anfeng Electric Power Co. Ltd. (70%) Peoples Republic of China	5
Henan Yongfeng Electric Power Co. Ltd. (70%) Peoples Republic of China	5
T2 Education Pte Ltd. (100%) Singapore	5
Peak Pacific (China) Investment Company Ltd. (100%) Peoples Republic of China	5
Shijiazhuang Chengfeng Cogen Co., Ltd. (100%) Peoples Republic of China	5
Singapore Peak Pingdingshan Pte. Ltd. (100%) Singapore	5
Zouping Peak Pte. Ltd. (100%) Singapore	5
Zouping Peak CHP Co. Ltd. (70%) Peoples Republic of China	5
Alliant Energy Holdings do Brasil Ltda. (99.9%)	6
Alliant Energy New Zealand Limited (100%) New Zealand	6
*(*And all subsidiaries detailed on page 10).*	10
Alliant Energy de Mexico, S. de R.L. de C.V. (99.97%) Mexico	6
Escosul Ltda. (99.9%) Brazil	6
Interstate Energy Corp. PTE Ltd. (100%) Singapore	6
Jiaxing JIES Power & Heat Co., Ltd. (50%) Peoples Republic of China	7
Tongxiang TIES Heat & Power Co., Ltd. (30%) Peoples Republic of China	7
Anhui New Energy Heat & Power Co., Ltd. (64%) Peoples Republic of China	7
Jiaxing Jies IEC PTE. Ltd. (100%) Singapore	6
LDM Electric Supply Co., S.A. de C.V. (.10%) Mexico	6
LDM Utility Co., S.A. de C.V. (96.582%) Mexico	6
Peak Pacific Investment Company Ltd. (90.9%) Singapore	6
Sea Lagoons Developments, S. de R.L. de C.V. (99.97%) Mexico	6
Tongxiang Ties IEC PTE. LTD. (100%) Singapore	6
Laguna del Mar RSC, S.A. de C.V. (.10%) Mexico	6

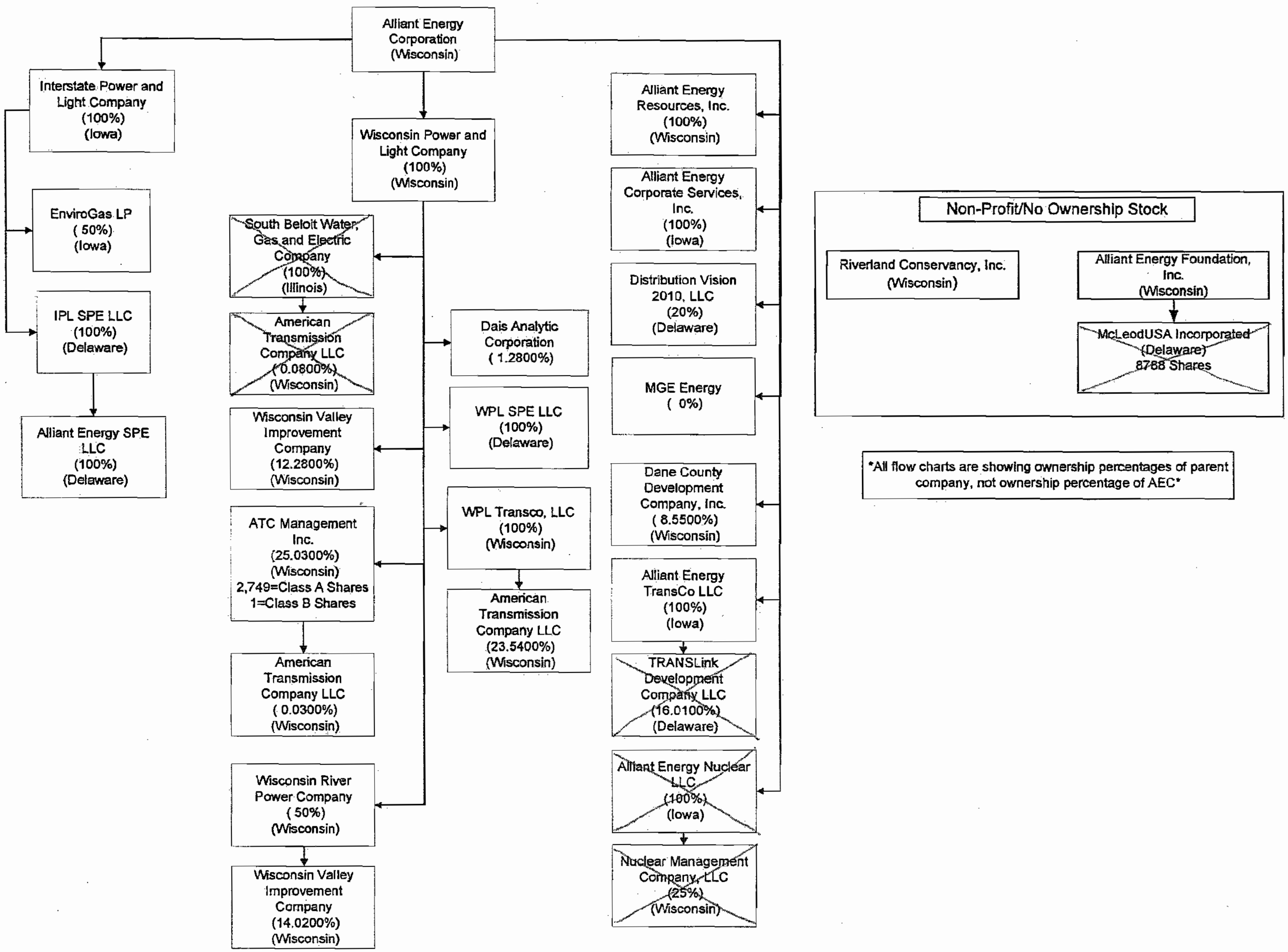
Administradora Laguna del Mar, S.A. de C.V. (99.9%) Mexico	6
Laguna Del Mar, LLC (100%) Arizona	6
NG Energy Trading, LLC (50.05%) Oklahoma	9
Alliant Energy Desdemona, LP (.10%) Delaware	9
Alliant Energy Desdemona, LP (98.9%) Delaware	9
Oak Hill Pipeline L.P. (99%) Texas	9
Alliant Energy de Mexico, S. de R.L. de C.V. (.03%) Mexico	11
Alliant Energy Operaciones de Mexico, S. de R.L. de C.V. (.03%) Mexico	11
Alliant Energy Servicios de Mexico, S. de R.L. de C.V. (.03%) Mexico	11
Sea Lagoons Developments, S. de R.L. de C.V. (.03%) Mexico	11
Alliant Energy Operaciones de Mexico, S. de R.L. de C.V. (99.97%) Mexico	11
Alliant Energy Servicios de Mexico, S. de R.L. de C.V. (99.97%) Mexico	11

Companies Aquired Since December 31, 2005

Company Name	*Page Reference*
Cedar Ridge Wind, LLC (100%) Delaware	1
Statewide Energy Efficiency and Renewables Administration, Inc. (Wisconsin)	1
Venture Capital Fund Ltd. (.9479%)	2
Poly Lion Private Limited (100%) Singapore	4

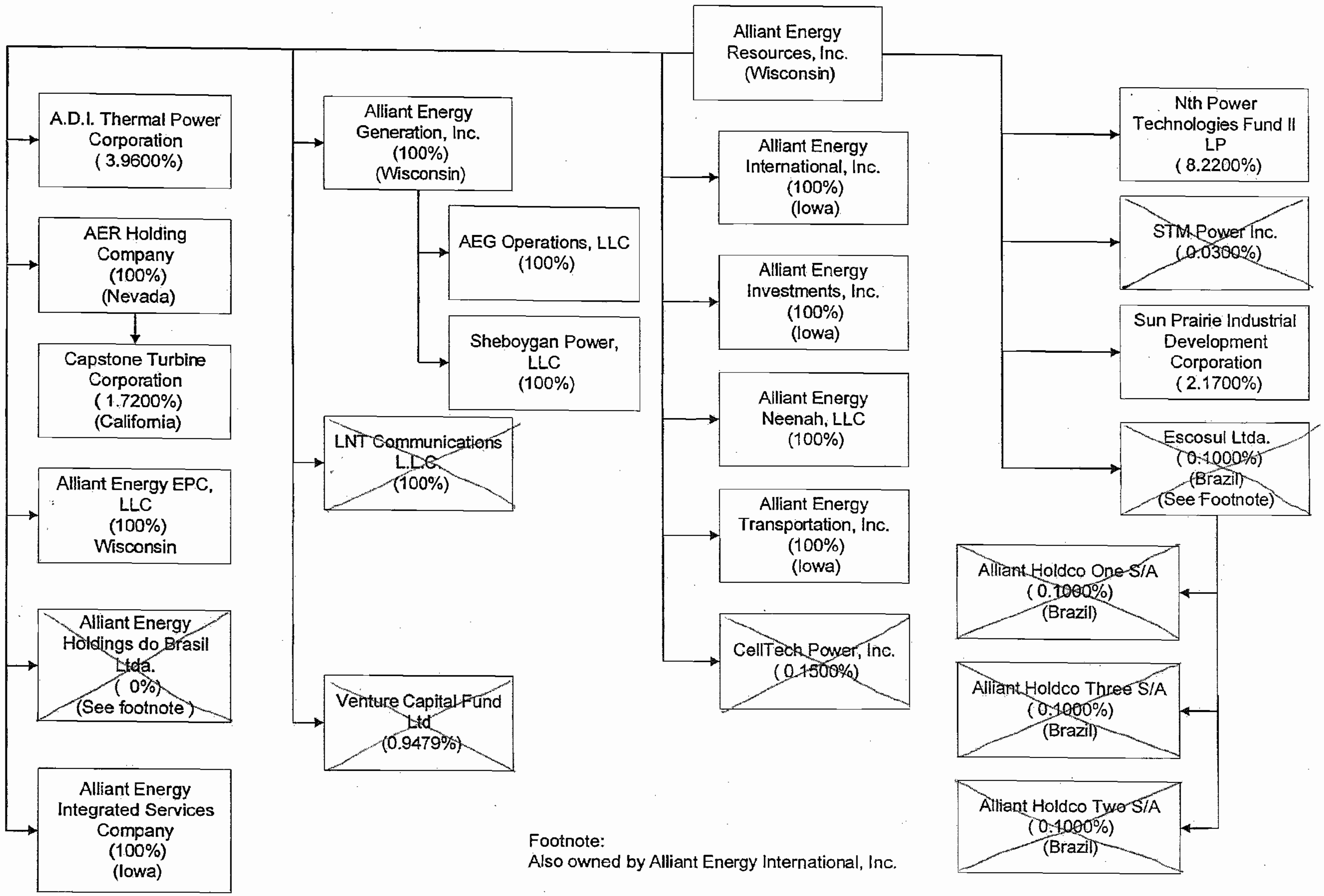
Subsidiaries of Alliant Energy Corporation

Effective Date: 12/31/2005
Created Date: 01/17/2006



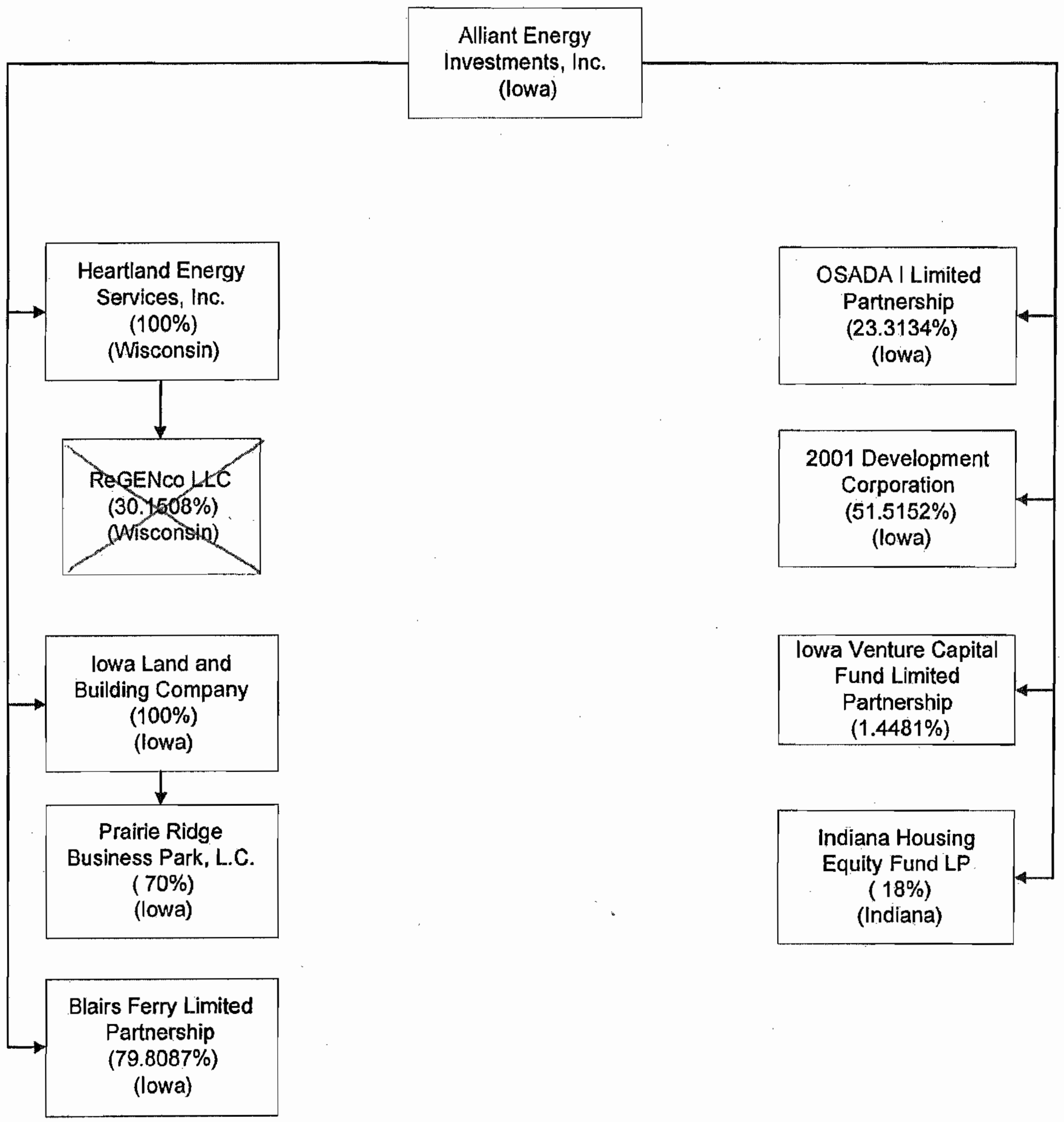
All flow charts are showing ownership percentages of parent company, not ownership percentage of AEC

Subsidiaries of Alliant Energy Resources, Inc.
Effective Date: 12/31/2005
Created Date: 02/17/2006



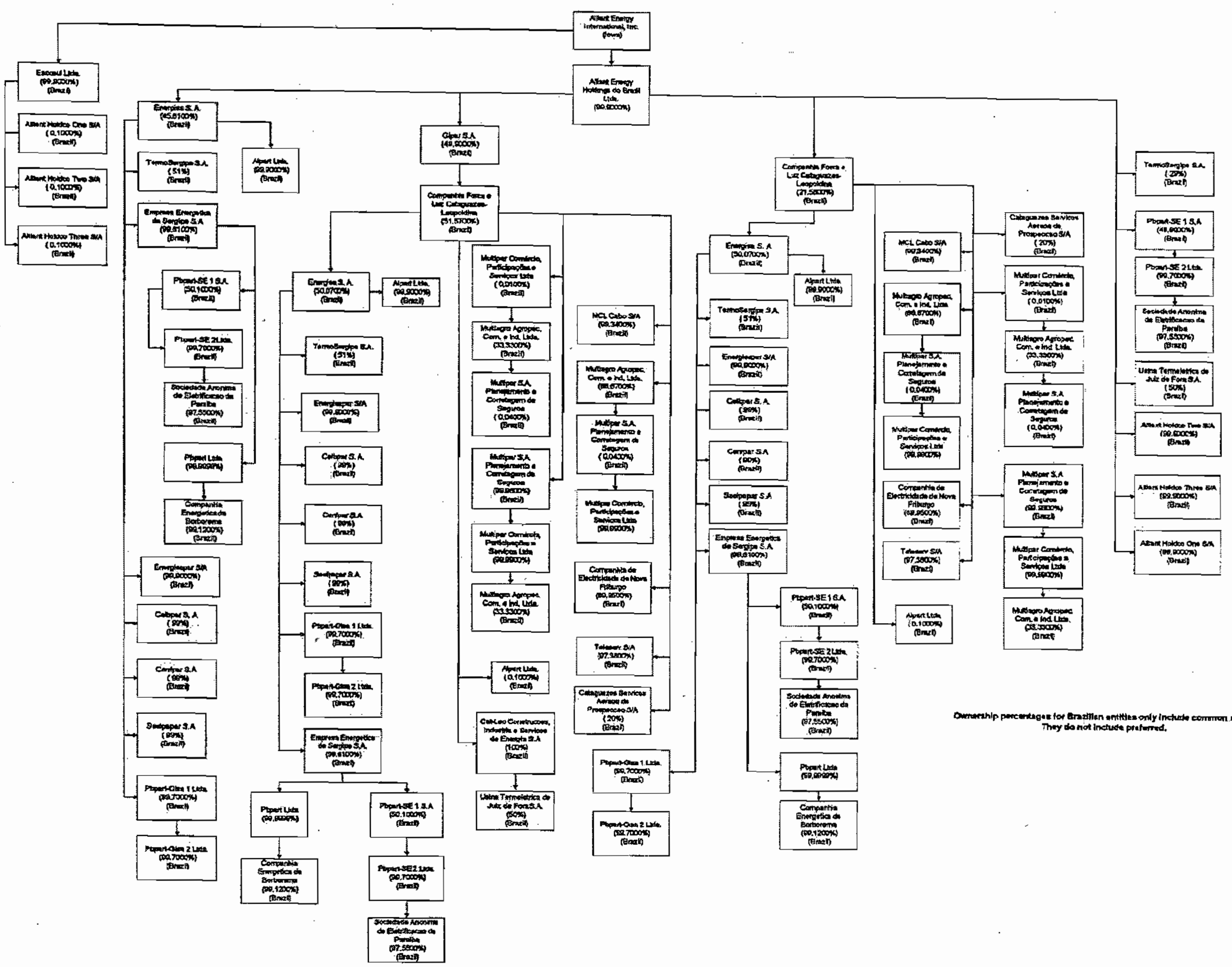
Footnote:
Also owned by Alliant Energy International, Inc.

Subsidiaries of Alliant Energy Investments, Inc.
Effective Date: 12/31/2005
Created Date: 2/17/2006



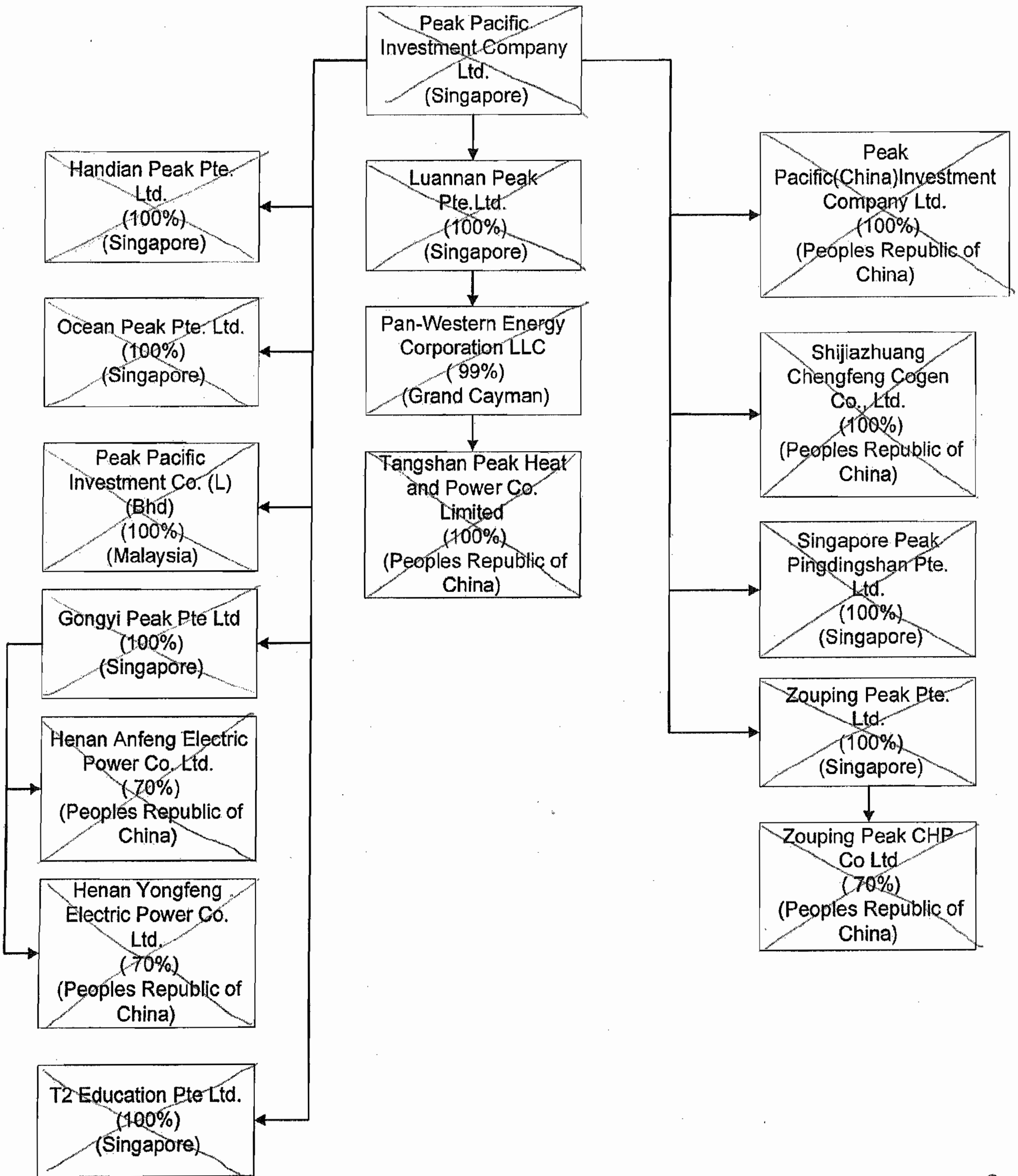
All Brazil investments sold.

Subsidiaries of Alliant Energy International, Inc.
Brazilian Entities
Effective Date: 12/31/2005
Created Date: 01/17/2006

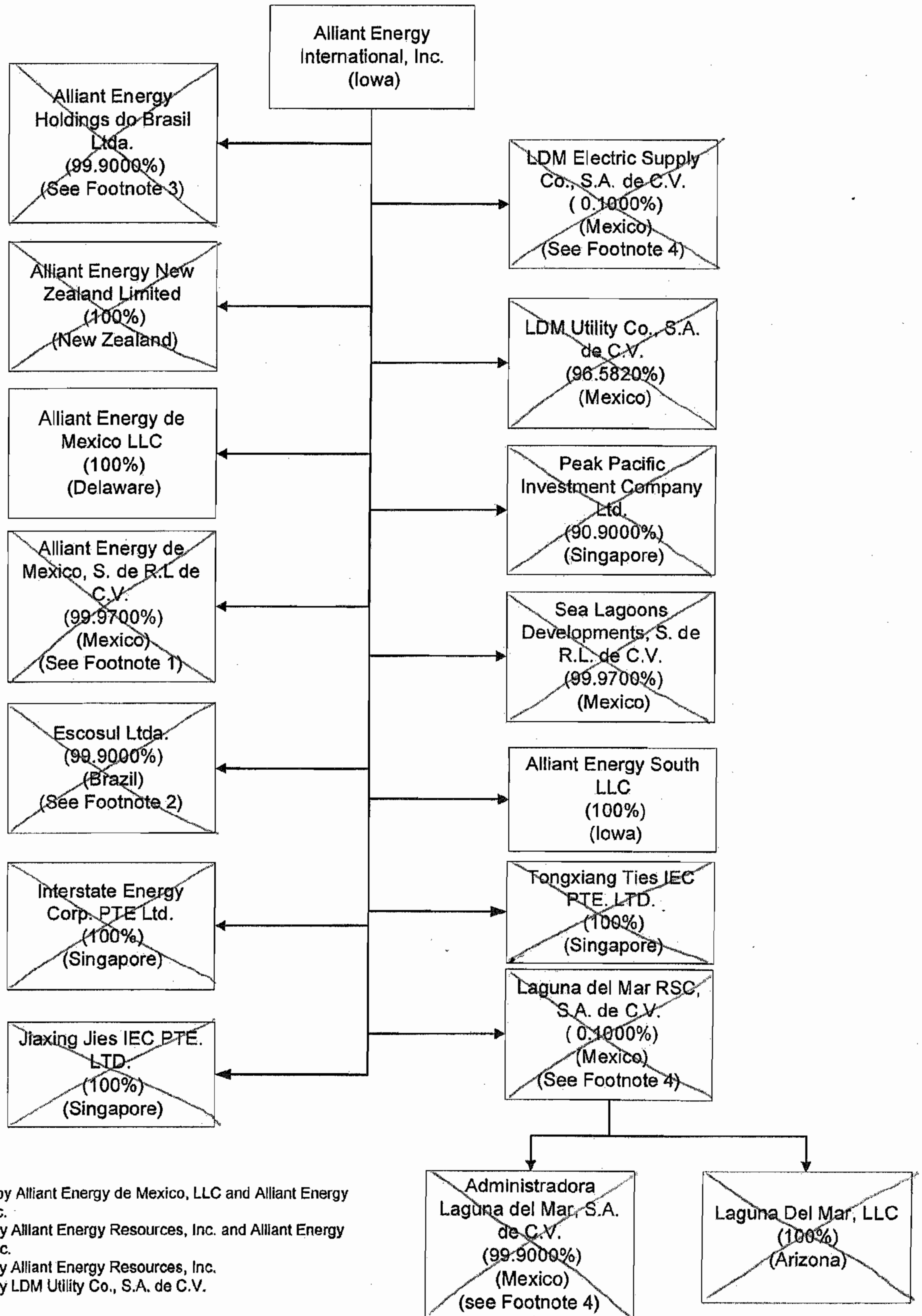


Ownership percentages for Brazilian entities only include common stock. They do not include preferred.

Subsidiaries of Peak Pacific Investment Company Ltd.
Effective Date: 12/31/2005
Created Date: 01/17/2006

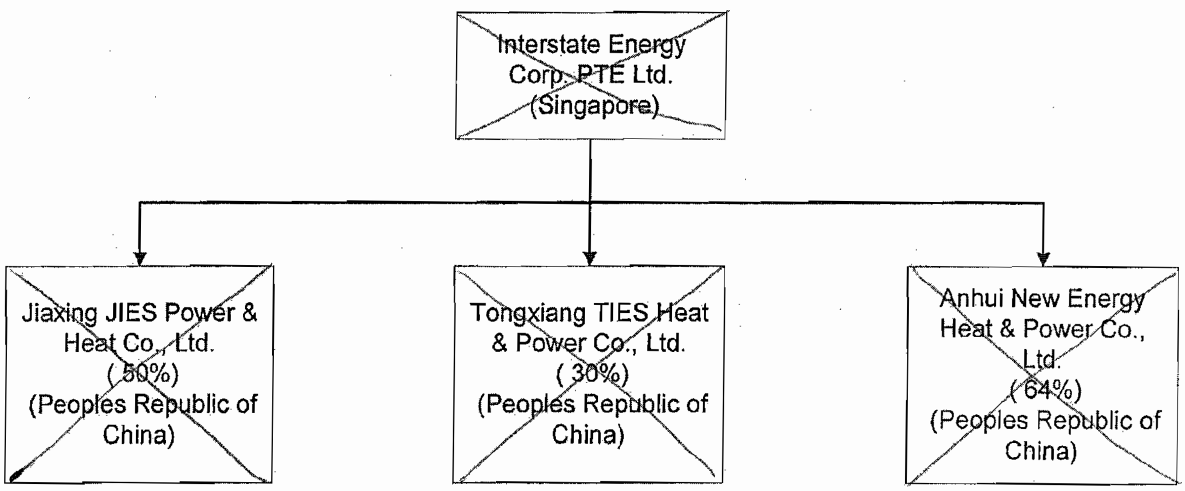


Subsidiaries of Alliant Energy International, Inc.
Effective Date: 12/31/2005
Created Date: 01/17/2006

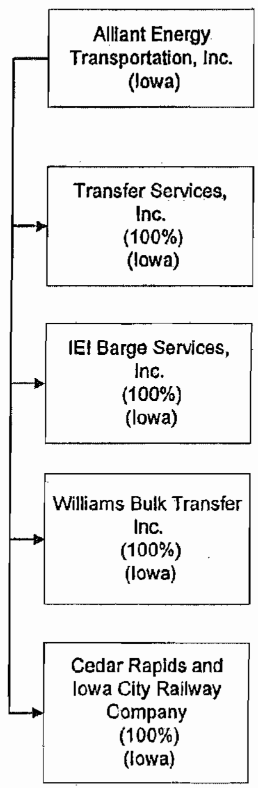


Footnotes:
1) Also owned by Alliant Energy de Mexico, LLC and Alliant Energy Inernational, Inc.
2)Also owned by Alliant Energy Resources, Inc. and Alliant Energy International, Inc.
3)Also owned by Alliant Energy Resources, Inc.
4)Also owned by LDM Utility Co., S.A. de C.V.

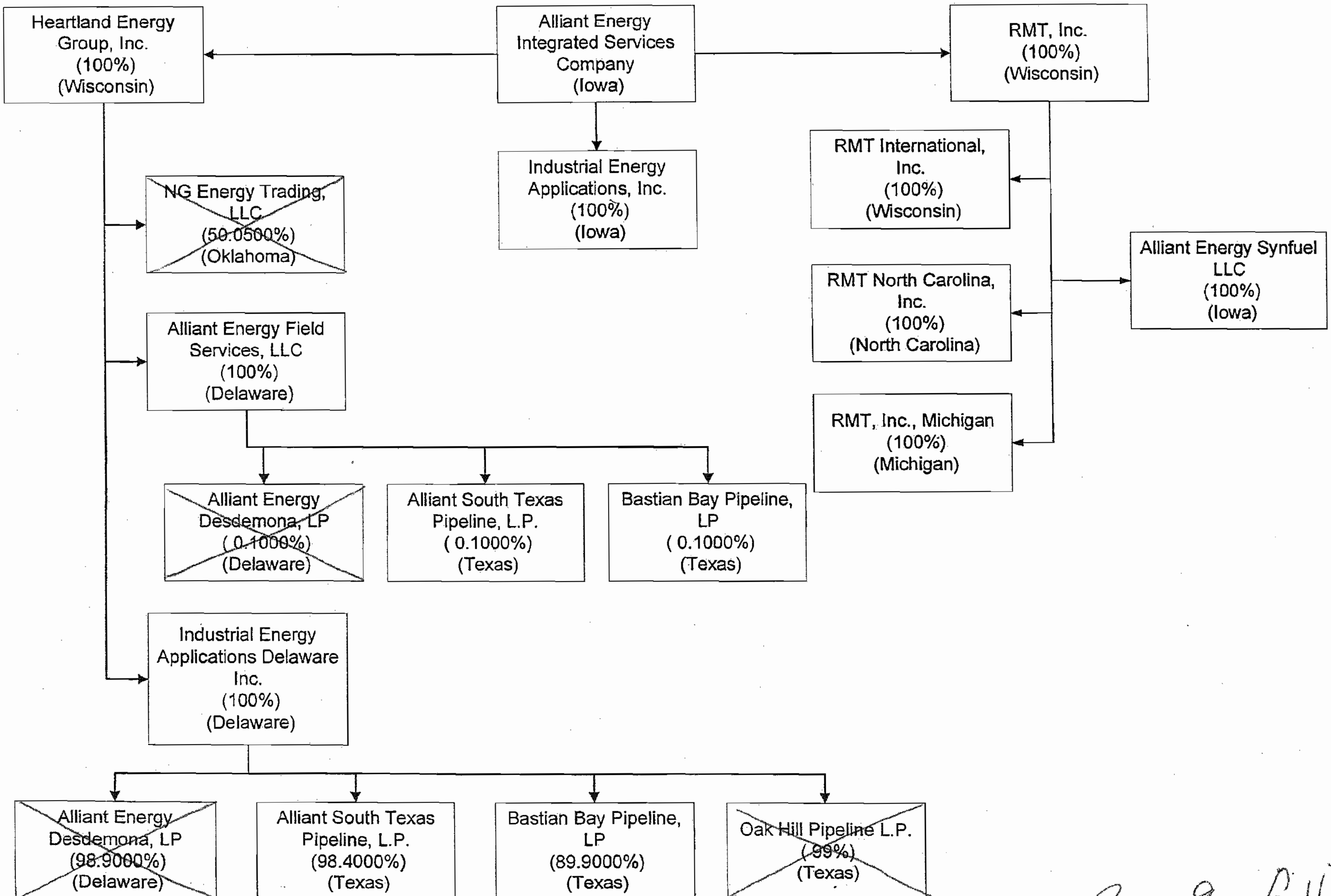
Subsidiaries of Interstate Energy Corp. PTE Ltd.
Effective Date: 12/31/2005
Created Date: 01/17/2006



Subsidiaries of Alliant Energy Transportation, Inc.
Effective Date: 12/31/2005
Created Date: 01/17/2006



Subsidiaries of Alliant Energy Integrated Services Company
Effective Date: 12/31/2005
Created Date: 01/17/2006

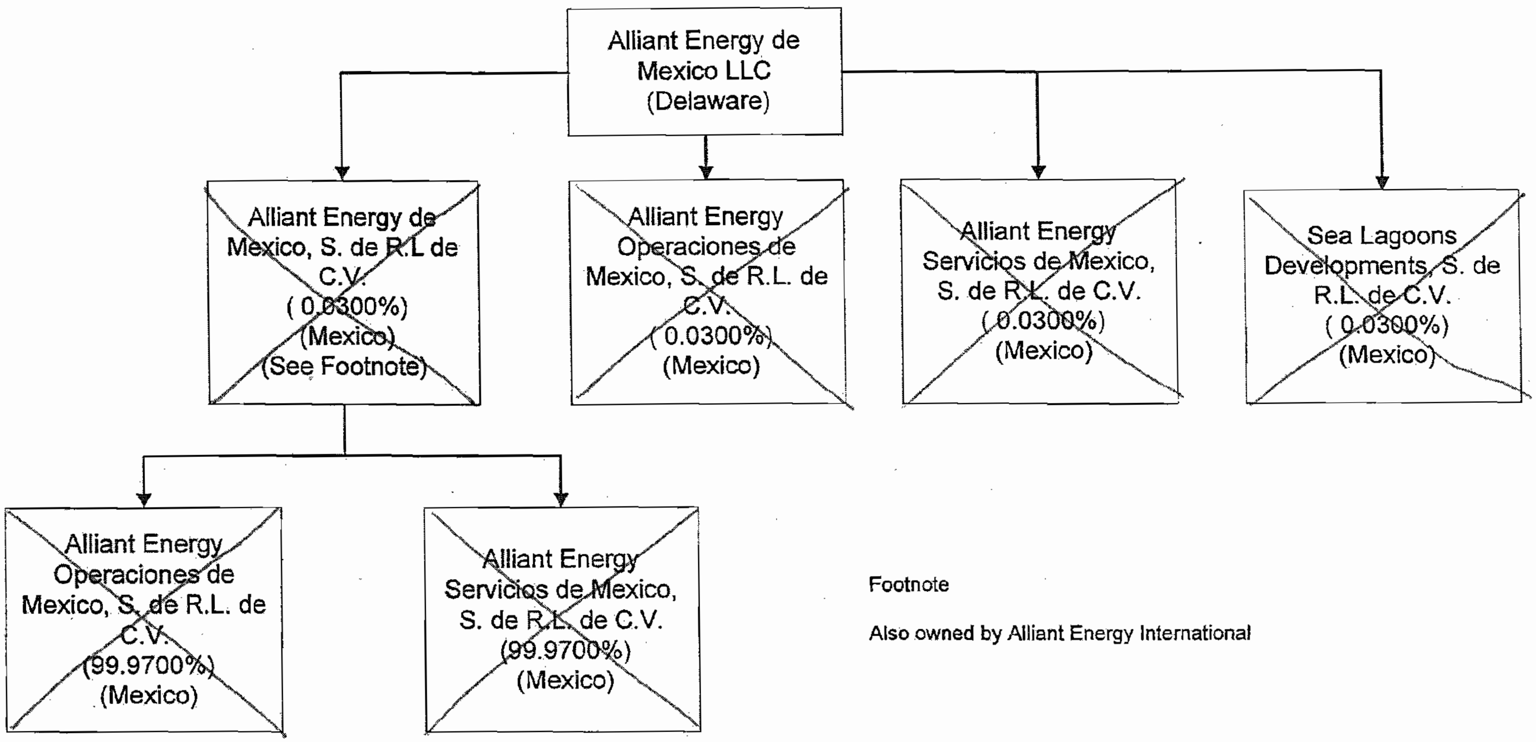


- All New Zealand investments sold

Subsidiaries of Alliant Energy New Zealand Limited
Effective Date: 12/31/2005
Created Date: 01/17/2006

- Alliant Energy New Zealand Limited (100%) (New Zealand)
  - Infratil Limited (5%) (New Zealand)
    - Energy Developments Limited (12.9100%) (Australia)
    - Glasgow Prestwick Holdings Limited (100%) (New Zealand)
    - Infratil 1998 Limited (100%) (New Zealand)
    - Infratil Finance Limited (100%) (New Zealand)
    - Infratil Investments Limited (100%) (New Zealand)
    - Infratil Securities Limited (100%) (New Zealand)
    - Infratil UK Limited (100%) (New Zealand)
    - Infratil Ventures Limited (100%) (New Zealand)
      - Infratil Australia Limited (100%) (New Zealand)
    - NZ Airports Limited (100%) (New Zealand)
    - Port of Tauranga Limited (6%) (New Zealand)
    - Wellington International Airport Limited (66%) (New Zealand)
    - Te Maunga Power Ltd. (50%) (New Zealand)
    - Tranz Rail Limited (4.7000%) (New Zealand)
    - TrustPower Ltd. (35.1800%) (New Zealand)
      - Bay Energy Ltd. (100%) (New Zealand)
      - Kaimai Windpower Ltd. (100%) (New Zealand)
      - Taheke Geothermal Ltd. (100%) (New Zealand)
      - Trustpower Metering Limited (50%) (New Zealand)
      - Waikaremoana Power Ltd. (80%) (New Zealand)
      - Cobb Power Limited (100%) (New Zealand)
      - Paehinahina Mourea Geothermal Ltd. (100%) (New Zealand)
      - Tararua Wind Power Limited (100%) (New Zealand)
      - TrustPower Australia (New Zealand) Ltd. (100%) (New Zealand)
  - Horizon Energy Distribution Ltd. (0.0100%) (New Zealand)
  - Vector Limited (0%) (New Zealand)
  - Te Maunga Power Ltd. (50%) (New Zealand)
  - TrustPower Ltd. (23.7714%) (New Zealand)
    - Bay Energy Ltd. (100%) (New Zealand)
    - Kaimai Windpower Ltd. (100%) (New Zealand)
    - Taheke Geothermal Ltd. (100%) (New Zealand)
    - TrustPower Australia (New Zealand) Ltd. (100%) (New Zealand)
    - Cobb Power Limited (100%) (New Zealand)
    - Paehinahina Mourea Geothermal Ltd. (100%) (New Zealand)
    - Tararua Wind Power Limited (100%) (New Zealand)
    - Trustpower Metering Limited (50%) (New Zealand)
    - Waikaremoana Power Ltd. (80%) (New Zealand)

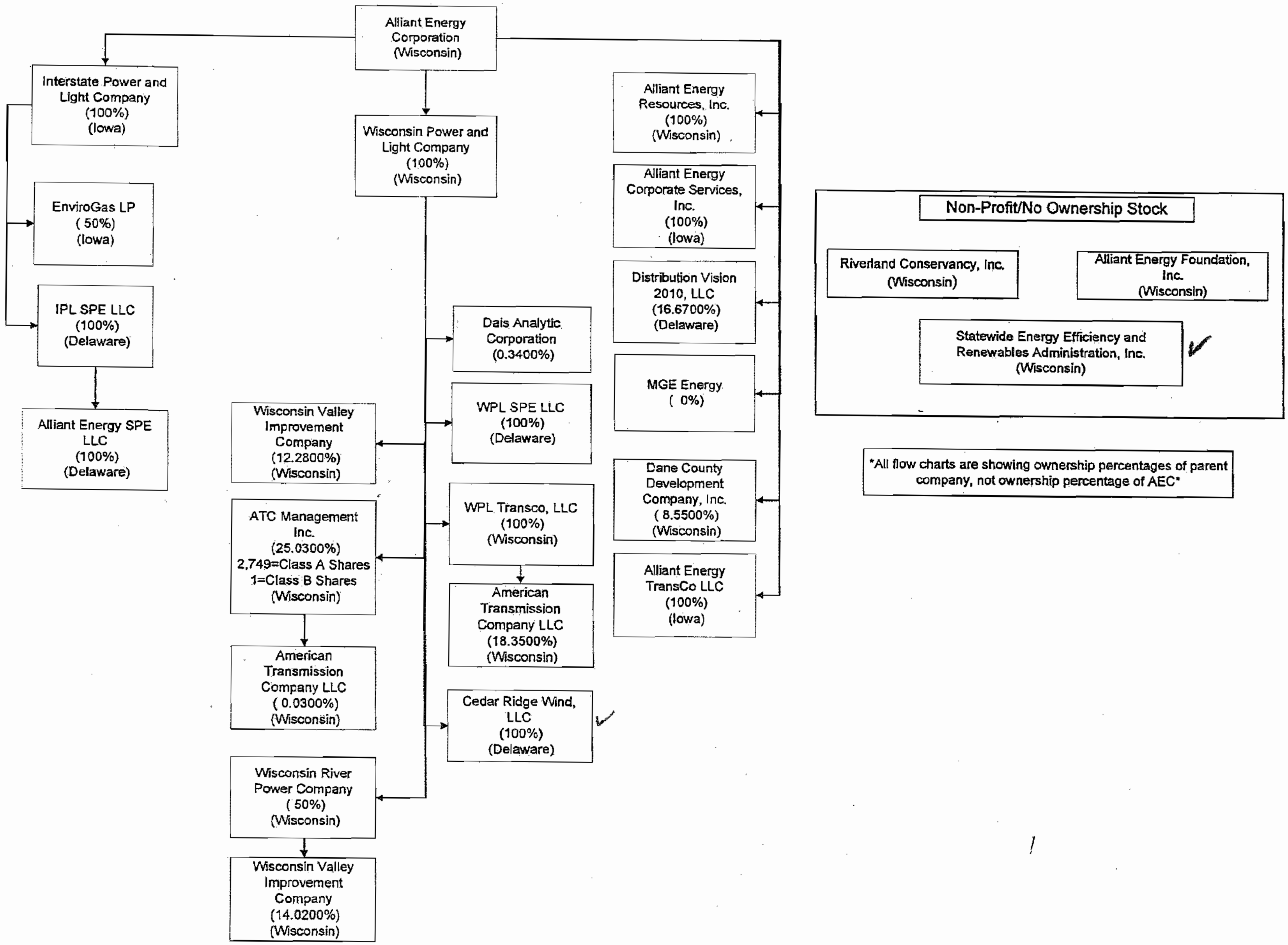
Subsidiaries of Alliant Energy de Mexico LLC
Effective Date: 12/31/2005
Created Date: 01/17/2006



Footnote

Also owned by Alliant Energy International

Subsidiaries of Alliant Energy Corporation
Effective Date: 6/30/2007
Created Date: 7/17/2007



All flow charts are showing ownership percentages of parent company, not ownership percentage of AEC

ALLIANT ENERGY ENTITIES AS OF 12/31/05

ENTITIES	Type of Business per Wis. Stat. § 196.795 (7) (a)
EnviroGas LP (50% owned by IES Utilities)	196.795(7)(a)(3)
Wisconsin River Power Co. (33.33%)	196.795(7)(a)(3)
Wisconsin Valley Improvement Co. (12%)	196.795(7)(a)(1)
Alliant Energy Corporate Services, Inc. (f/k/a Alliant Services, Inc.)	196.795(7)(a)(1)
Alliant Energy Resources, Inc. FKA Alliant Industries, Inc., FKA Heartland Development Corp., & IES Diversified, Inc.	196.795(7)(a)(1)
Industrial Energy Applications, Inc.	196.795(7)(a)(3)
Industrial Energy Applications Delaware, Inc.	196.795(7)(a)(1)
Oak Hill Pipeline LP (99%)	196.795(7)(a)(3)
Heartland Energy Services, Inc.	196.795(7)(a)(1)
Heartland Energy Group	196.795(7)(a)(1)
RMT, Inc.	196.795(7)(a)(1)
RMT, Inc., North Carolina Inc.	196.795(7)(a)(3)
RMT of Michigan, Inc.	196.795(7)(a)(3)
RMT International Inc. (U.S. Company)	196.795(7)(a)(3)
RMT Consulting Engineers, P.C. (Zero % RMT owned; owned by key RMT Employees)	196.795(7)(a)(3)
Alliant Energy Transportation, Inc. f/k/a IES Transportation Inc.	196.795(7)(a)(3)
IEI Barge Services, Inc.	196.795(7)(a)(3)
Transfer Services, Inc. f/k/a IES Transfer Services Inc.	196.795(7)(a)(3)
CRANDIC (Cedar Rapids and Iowa City Railway Company)	196.795(7)(a)(3)
Alliant Energy Investments, Inc. (FKA IES Investments Inc.)	196.795(7)(a)(1)
Prairie Ridge Business Park, LP (70%)	196.795(7)(a)(4)
Blairs Ferry Limited Partnership (MAHP 89.2%)	196.795(7)(a)(4)
OSADA I Limited Partnership 9MAHP 81.8%)	196.795(7)(a)(4)
Iowa Land and Building	196.795(7)(a)(3)
2001 Development Corp.. (54.55%)	196.795(7)(a)(4)
Alliant Energy International, Inc. (f/k/a IES International Inc.)	196.795(7)(a)(3)
Alliant Energy de Mexico LLC (Delaware)	196.795(7)(a)(3)
Interstate Energy Corp. PTE LTD (Singapore)	196.795(7)(a)(3)
Jies Power & Heat Co. Ltd (50%)	196.795(7)(a)(3)
Tongxiang TIES Heat & Power Co. LTD (50%)	196.795(7)(a)(3)
Alliant International New Zealand Limited **Changed name to Alliant Energy New Zealand Limited 6/13/03**	196.795(7)(a)(3)
Peak Pacific Investment Company Pte Ltd (65%) (Singapore) (parent of 57, 68, 59, & 60)	196.795(7)(a)(3)
Shijiazhuang Chengfeng Heat & Power Co. Ltd (70%) (China CJV)	196.795(7)(a)(3)
Peak Pacific Investment Company (L) (bhd) (100% Malaysia)	196.795(7)(a)(3)
Alliant Energy de Mexico, S. de R.L. de C.V. (99.99% Mexico); (.01% Delaware)	196.795(7)(a)(3)

Appendix C

ALLIANT ENERGY ENTITIES AS OF 12/31/05

ENTITIES	Type of Business per Wis. Stat. § 196.795 (7) (a)
Alliant Energy Operaciones de Mexico (99.99% Mexico); (.01% Delaware)	196.795(7)(a)(3)
Alliant Energy Services de Mexico (99.99%Mexico) (.01% Delaware)	196.795(7)(a)(3)
LDM Utility Co., S.A. de C.V.	196.795(7)(a)(3)
Williams Bulk Transfer, Inc.	196.795(7)(a)(3)
South Texas Pipeline, L.P.	196.795(7)(a)(3)
Alliant Energy Foundation Inc. (f/k/a Wisconsin Power and Light Foundation, Inc.	196.795(7)(a)(1)
AER Holding Company	196.795(7)(a)(3)
Alliant Energy Corporation	196.795(7)(a)(3)
Alliant Energy Desdemona, LP	196.795(7)(a)(3)
Alliant Energy Field Services, LLC	196.795(7)(a)(3)
Alliant Energy Holdings do Brasil Ltda.	196.795(7)(a)(3)
Alliant Energy Integrated Services Company	196.795(7)(a)(3)
Alliant Energy Nuclear LLC	196.795(7)(a)(3)
Alliant Energy SPE LLC	196.795(7)(a)(3)
Alliant South Texas Pipeline, L.P.	196.795(7)(a)(3)
American Transmission Company LLC	196.795(7)(a)(3)
Anhui New Energy & Power	196.795(7)(a)(3)
ATC Management Inc.	196.795(7)(a)(3)
Bastian Bay Pipeline, LP	196.795(7)(a)(3)
Bay Energy Ltd.	196.795(7)(a)(3)
Capstone Turbine Corporation	196.795(7)(a)(3)
Companhia de Electicidad de Nova Friburgo	196.795(7)(a)(3)
Companhia Energetica da Borborema	196.795(7)(a)(3)
Companhia Forca e Luz Cataguazes-Leopoldina S.A.	196.795(7)(a)(3)
Henan Yongfeng Electric Power Co. Ltd.	196.795(7)(a)(3)
Empresa Energetica de Sergipe S.A.	196.795(7)(a)(3)
Energisa S. A.	196.795(7)(a)(3)
Escosul Ltda.	196.795(7)(a)(3)
Gipar S.A.	196.795(7)(a)(3)
Henan Anfeng Electric Power Co. Ltd.	196.795(7)(a)(3)
Gongyi Peak Pte Ltd	196.795(7)(a)(3)
Indiana Housing Equity Fund LP	196.795(7)(a)(1)
Infratil Limited	196.795(7)(a)(3)
Interstate Power and Light Company f/k/a IES Utilities, Inc.	196.795(7)(a)(3)
Jinan Peak Pte Ltd **Changed name to Handian Peak Pte. Ltd. 11/13/2003**	196.795(7)(a)(3)
Kaimai Windpower Ltd.	196.795(7)(a)(3)
LNT Communications L.L.C.	196.795(7)(a)(3)
Luannan Peak Pte.Ltd.	196.795(7)(a)(3)
MCL Cabo S/A	196.795(7)(a)(3)
McLeodUSA Incorporated	196.795(7)(a)(3)
Multiagro Ltda	196.795(7)(a)(2)
Multipar S/A	196.795(7)(a)(3)
NG Energy Trading, LLC	196.795(7)(a)(3)

ALLIANT ENERGY ENTITIES AS OF 12/31/05

ENTITIES	Type of Business per Wis. Stat. § 196.795 (7) (a)
Nth Power	196.795(7)(a)(3)
Nuclear Management Company, LLC	196.795(7)(a)(3)
Ocean Peak Pte. Ltd.	196.795(7)(a)(3)
Paehinahina Mourea Geothermal Ltd.	196.795(7)(a)(2)
Pbpart Ltda.	196.795(7)(a)(3)
Pbpart-SE 1 Ltda.	196.795(7)(a)(3)
Pbpart-SE 2 Ltda.	196.795(7)(a)(3)
Pos Power Limited **Changed name to Trustpower Metering Limited 9/03/03**	196.795(7)(a)(3)
ReGENco LLC	196.795(7)(a)(3)
RiverLand Conservancy, Inc. f/k/a Wisconsin Power and Light Land Stewardship Trust, Inc.	196.795(7)(a)(1)
Sociedade Anônima de Eletrificaçao da Paraíba	196.795(7)(a)(3)
South Beloit Water, Gas & Electric Company	196.795(7)(a)(3)
Taheke Geothermal Ltd.	196.795(7)(a)(2)
Tararua Wind Power Limited	196.795(7)(a)(2)
Te Maunga Power Ltd.	196.795(7)(a)(3)
Tranz Rail Ltd	196.795(7)(a)(3)
TrustPower Ltd. (New Zealand)	196.795(7)(a)(3)
Wisconsin Power and Light Company	196.795(7)(a)(3)
WPL SPE LLC	196.795(7)(a)(3)
WPL Transco, LLC	196.795(7)(a)(3)
Zouping Peak CHP Co Ltd	196.795(7)(a)(3)
Zouping Peak Pte. Ltd.	196.795(7)(a)(3)
Glasgow Prestwick Holdings Limited - under Infratil, reported as Infrastructure & Utilities 6/17/01	196.795(7)(a)(3)
Infratil 1998 Limited - under Infratil, reported as Infrastructure & Utilities 6/17/01	196.795(7)(a)(3)
Infratil Finance Limited - under Infratil, reported as Infrastructure & Utilities 6/17/01	196.795(7)(a)(3)
Infratil Investments Limited under Infratil, reported as Infrastructure & Utilities 6/17/01	196.795(7)(a)(3)
Infratil Securities Limited - under Infratil, reported as Infrastructure & Utilities 6/17/01	196.795(7)(a)(3)
Infratil UK Limited - under Infratil, reported as Infrastructure & Utilities 6/17/01	196.795(7)(a)(3)
NZ Airports - under Infratil, reported as Infrastructure & Utilities 6/17/01	196.795(7)(a)(3)
Port of Tauranga Ltd - under Infratil, reported as Infrastructure & Utilities 6/17/01	196.795(7)(a)(3)
Teleserv SA - under Energisa SA, under Cataguazes, Energisa reported 9/28/00/ Cataguazes reported 9/29/00	196.795(7)(a)(3)
Termo Sergipe SA- under Energisa SA, under Cataguazes, Energisa reported 9/28/00/ Cataguazes reported 9/29/00	196.795(7)(a)(3)
Usina Termeletrica de Juiz de Fora S.A.- under Cataguazes, Cataguasez reported 9/29/00	196.795(7)(a)(3)
Waikaremoana Power Ltd - under Trustpower, Trustpower reported 9/29/00	196.795(7)(a)(3)

Appendix C

ALLIANT ENERGY ENTITIES AS OF 12/31/05

ENTITIES	Type of Business per Wis. Stat. § 196.795 (7) (a)
Wellington International Airport- under Infratil, reported under Usina as Infrastructure & Utilities 6/17/01	196.795(7)(a)(3)
Alliant Energy Generation, Inc.	196.795(7)(a)(3)
AEG Operations, LLC	196.795(7)(a)(3)
Alliant Energy Neenah, LLC **acquired Mirant Neenah, LLC on 1/31/03 and changed name on 2/10/2003**	196.795(7)(a)(3)
Singapore Peak Pingdingshan Pte Ltd	196.795(7)(a)(3)
T2 Education Pte Ltd	196.795(7)(a)(2)
Alliant Holdco One S/A	196.795(7)(a)(3)
Distribution Vision 2010, LLC	196.795(7)(a)(3)
Energisapar S/A	196.795(7)(a)(3)
Energy Developments Limited	196.795(7)(a)(2)
Peak Pacific(China)Investment Company Ltd.	196.795(7)(a)(3)
Tangshan Peak Heat and Power Co. Ltd.	196.795(7)(a)(3)
Alliant Energy Synfuel LLC	196.795(7)(a)(2)
Alliant Energy TransCo LLC	196.795(7)(a)(3)
Cargill-Alliant Energy Canada, LP	196.795(7)(a)(3)
Alliant Energy EPC, LLC	
Alliant Energy South LLC	
Cat-Leo Construcoes, Industria e Servicos de Energia S.A.	
Cobb Power Limited	
Jiaxing Jies ICE PTE. LTD	
LDM Electric Supply Co., S.A. de C.V.	
Laguna del Mar RSC, S.A. de C.V.	
Sea Lagoons Developments, S. de R.L. de C.V.	
Sheboygan Power, LLC	
Tongxiang Ties IEC PTE LTD	

Appendix C

ALLIANT ENERGY ENTITIES AS OF 12/31/05

ENTITIES	Type of Business per Wis. Stat. § 196.795(7)(a)
A.D.I. Thermal Power Corporation	
IPL SPE LLC	
Pan Western Energy Corporation LLC	
Dais Analytic Corporation	
Dane County Development Company LLC	
Venture Capital Fund	
STM Power Inc.	
Sun Prairie Industrial Development Corporation	
Iowa Venture Capital Fund Limited Partnership	
Administradora Laguna del Mar, S.A. de C.V.	
Laguna Del Mar, LLC	
Infratil Ventures Limited	
Infratil Australia Limited	
Horizon Energy Distribution Ltd.	
TrustPower Australia (New Zealand)Ltd.	

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Appendix D

ALLIANT ENERGY RESOURCES, INC.
Total Assets & Employees
December 31, 2005

	Total Assets (in thousands)	Assets in Wisconsin (in thousands)	Total Employees	Employees in Wisconsin
Alliant Energy Investments, Inc.	$ 620,639	$ 1,339	-	-
Alliant Energy International, Inc.	486,104	-	16	-
Alliant Energy Generation, Inc.	151,403	151,403	2	-
Alliant Energy Neenah, LLC	118,079	118,079	3	3
Alliant Energy Integrated Services Company	103,065	47,005	557	214
Alliant Energy Transportation, Inc.	66,840	-	107	-
AER Holding Company	11,372	-	-	-
Alliant Energy EPC, LLC	11,305	11,305	-	-
Alliant Energy Resources, Inc. Staff & Eliminations (1)	(610,675)	61,389	7	-
Consolidated Alliant Energy Resources, Inc.	$ 958,132	$ 390,520	692	217

(1) The December 31, 2005 elimination entries included the impact of eliminating an intercompany loan of $548.8 million between Alliant Energy Investments, Inc. and Alliant Energy International, Inc.

Appendix E
Financial Operating Parameters

1. Securities case order in docket 6680-SB-101 (January 30, 1986)

In this pre-holding company order relating to the issuance of securities, the Commission states: "It is fundamental to sound utility regulation that the capital structure of the utility must be adequate to support appropriate system maintenance and improvement without financial strain. In this context, and that of increased actual risk and the perception of increased risk by the financial community, the commission finds that public interest will be served by applicant's achieving a utility capital structure containing no less than 50% equity for the present and near future."[1]

The Commission also found that before WP&L funds non-utility ventures the Commission must first make sure that the utility maintains a healthy capital structure. In order to ensure the continued financial health of the utility, the public interest required that WP&L not fund non-utility ventures until the utility reached and maintained a 50 percent common equity ratio. An investment restriction was imposed that prohibited WP&L from using utility funds for non-utility investments until the company reached and maintained a 50 percent equity level. This restriction was later revised in docket 9403-YO-100.

2. Holding company formation order in docket 9403-YO-100 (April 30, 1987)

In this order the Commission found that the fundamental requirement for meeting the obligation to serve at reasonable cost is the continuing financial health of the utility. The Commission found that the following three elements of utility finance help to ensure that utilities are able to provide reliable, low cost service into the future:

1. a reasonable and balanced capital structure;
2. a dividend policy based on the utility's needs; and
3. a commitment to fund capital construction needed to provide reliable and safe utility service.[2]

The Commission also reaffirmed its earlier findings that the appropriate common equity ratio for WP&L was at least 50 percent. The Commission further found it necessary for WP&L to maintain its investment in utility operations in order to remain a strong ongoing utility. In order to ensure that utility equity was not used to finance non-utility investment before the utility reached 50 percent equity, the Commission ordered that any dividends paid by WP&L to its parent must be passed through immediately to the stockholders of WPLH. Thus, in general, all dividends paid from WP&L to WPLH were to be passed through to the shareholders of WPLH. This restriction would end when WP&L's equity ratio reached 50 percent.

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[1] Primarily pages 4-6, and 9 of the January 30, 1986, Order in docket 6680-SB-101.
[2] Primarily pages 5-13 of the April 30, 1987, Order in docket 9403-YO-100.

3. Rate case order in docket 6680-UR-103 (October 13, 1988)

In this rate case docket, the Commission conducted an investigation of the appropriate capital structure for WP&L and determined that the appropriate range at that time was 45 to 50 percent equity. The projected average equity ratio for the test year ending July 31, 1989, was 49.52 percent. The Commission withdrew the dividend pass through requirement.[3] However, the Commission restricted WP&L from paying any greater than normal dividends in cases where such payment would result in the utility common equity ratio falling below the average level forecasted in the test year (49.52 percent). For dividend restriction purposes, normal dividends have typically been interpreted as the amount reasonably forecasted to be paid in the test year and the equity ratio as a 13-month average.

4. Rate case order in docket 6680-UR-104 (November 9, 1989)

In this rate case for test year ending July 31, 1990, WP&L and Commission staff agreed that the utility common equity ratio should be increasing towards the 55 percent level to maintain interest coverage and financial health. Similarly, the Commission also determined that the percent of common equity in the utility capital should be increasing from the average test year level of 49.50 percent.[4]

5. Rate case order in docket 6680-UR-107 (December 22, 1992)

The order in this rate case does not discuss the appropriate capital structure levels. The Commission, however, determined that a reasonable utility ratemaking capital structure for the test year ending July 31, 1993, was 49.53 percent and restricted WP&L from paying any greater than normal dividends in cases where such payment would result in the utility common equity ratio falling below the average level forecasted in the test year (49.53 percent).

6. Rate case order in docket 6680-UR-108 (September 30, 1993)

For the test year ending July 31, 1994, the Commission determined that a reasonable utility ratemaking capital structure was 50.31 percent and restricted WP&L from paying any greater than normal dividends in cases where such payment would result in the utility common equity ratio falling below the average level forecasted in the test year (50.31 percent). The common equity ratio included a forecasted equity infusion by WPLH.

7. Rate case order in docket 6680-UR-109 (December 8, 1994)

For the test year ending December 31, 1995, the Commission determined that a reasonable utility ratemaking capital structure was 51.93 percent and restricted WP&L from paying any greater than normal dividends in cases where such payment would result in the utility common equity ratio falling below the average level forecasted in the test year (51.93 percent).

8. Rate case order in docket 6680-UR-110 (April 29, 1997)

For the test year ending December 31, 1997, the Commission determined that a reasonable utility ratemaking capital structure was 52.00 percent and restricted WP&L from paying any greater

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[3] Primarily pages 28-31, 65, and 69-70 of the October 13, 1988, Order.

[4] Primarily pages 16-18 of the November 9, 1989, Order.

than normal dividends in cases where such payment would result in the utility common equity ratio falling below the average level forecasted in the test year (52.00 percent).[5]

9. Alliant formation order in docket 6680-UM-100 (November 4, 1997)

In the merger order, the Commission did not reiterate its discussion in docket 9403-YO-100 regarding the three elements of utility finance that help to ensure that utilities are able to provide reliable, low cost service into the future. However, the Commission directed that certain requirements from that order be carried over and specifically applied to Alliant.[6] These requirements include: Order Point 29, requiring WP&L to maintain a balanced capital structure within a reasonable range to be established by the Commission; Order Point 30 requiring the directors of WP&L to set dividend policy based solely on the capital needs and financial health of the utility, without regard to the need for capital on the part of the holding company, other utility affiliates, or other nonutility affiliates in the holding company system; and Order Point 31 requiring WP&L to submit ten-year financial strategic plans.

10. Rate case order in docket 6680-UR-111 (September 13, 2002)

With the formation of Alliant, the Commission allowed a four-year rate freeze at existing rate levels, subject to certain adjustments. The first rate case after the merger was for the 2002 test year. The Commission determined that the appropriate range at that time was 46.5 to 53.0 percent equity, on a financial basis, and ordered WP&L not to pay dividends in excess of the dividend used in determining the test year average capital structure if WP&L's actual average common equity ratio, on a ratemaking basis, is or would fall below the test year authorized level (44.67 percent, regulatory).[7]

The Commission also determined in that rate case that, the appropriate ratings level for WP&L is an "A"-rating; WP&L's off-balance sheet obligations, including the debt equivalent of accounts receivables sales, purchased power and operating leases should be included in the financial capital structure; and that Alliant should meet its commitment to infuse additional equity of $260 million in 2002 and 2003. The Commission used WP&L's unaudited calculations of the debt equivalents for the off-balance sheet obligations associated with purchased power and operating leases and calculated an average equity ratio, on a financial basis, for the test year at 44.16 percent, below the equity range established.[8]

11. Rate case order in docket 6680-UR-112 (April 4, 2003)

In this rate case for the test year ending December 31, 2003, the Commission determined that the appropriate range for WP&L was 47.5 to 54.0 percent equity, on a financial basis, and ordered WP&L not to pay dividends, including pass-through of subsidiary dividends, in excess of $70,580,000 if WP&L's actual average common equity ratio, on a ratemaking basis, is or would fall below the test year authorized level (51.72 percent). The Commission also determined in that rate case that the debt-equivalents of WP&L's off-balance sheet obligations associated with purchased power and operating leases should be based on a 60 percent factoring of the present value of the payments, and calculated the average equity ratio, on a financial basis for the test

[5] Primarily pages 33-34, 83, and 90 of the April 29, 1997, Order.
[6] Primarily pages 35, 56, and 57 of the November 4, 1997, Order in docket 6680-UM-100.
[7] Primarily pages 8-9, 35-37, and 72 of the September 13, 2002, Final Decision.
[8] In subsequent rate cases, the method of calculating the debt-equivalent would be questioned and revised.

year at 47.46 percent, slightly below the equity range established. The Commission further determined that Alliant should meet its commitment to infuse additional equity of $200 million within 90 days of the Final Decision.[9]

12. Rate case order in docket 6680-UR-113 (December 19, 2003)

In this rate case for the test year ending December 31, 2004, the Commission determined that the appropriate range for WP&L remained at 47.5 to 54.0 percent equity, on a financial basis, and ordered WP&L not to pay dividends, including pass-through of subsidiary dividends, in excess of $88,940,000 if WP&L's actual average common equity ratio, on a financial basis, is or would fall below the test year authorized level (54.01 percent). The Commission also determined in that rate case that WP&L's off-balance sheet obligations associated with purchased power and operating leases should be based on a 60 percent factoring of the present value of the payments, and calculated the average equity ratio, on a financial basis for the test year at 54.01 percent, slightly above the equity range established.[10]

13. Rate case order in docket 6680-UR-114 (July 19, 2005)

In this rate case for the year ending June 30, 2006 the Commission determined that the appropriate range for WP&L remained at 47.5 to 54.0 percent equity, on a financial basis, and ordered WP&L not to pay dividends, including pass-through of subsidiary dividends, in excess of $92,264,000 if WP&L's actual average common equity ratio, on a financial basis, is or would fall below the test year authorized level (53.14 percent). The Commission calculated the average equity ratio, on a financial basis for the test year at 53.14 percent and ordered that WP&L submit, in the next rate case, information on off-balance sheet obligations for which the financial markets will calculate a debt equivalent. This last point was in response to rate case testimony that rating agency methodologies had changed and the new methodologies needed to be substantiated with public evidence where available.

14. Current restrictions and findings

The Commission established an appropriate equity range of 47.5 to 54.0 percent equity on a financial basis, based on maintaining an "A"-rating. WP&L is restricted from paying dividends which exceed $92,264,000 when the utility common equity ratio, on a financial basis, is or will fall below 53.14 percent. WP&L is able to increase the dividend payment at the end of the test year if earnings are higher than expected and payment of the increased dividend will not result in an average test year common equity ratio below the forecasted level.

[9] Primarily pages 8-9, 39-45, and 63 of the April 4, 2003, Final Decision.
[10] Primarily pages 7-8, 35-37, and 57 of the December 19, 2003, Final Decision.

Appendix F

Rate Changes for 2004 through 2005

	(in million's)
Electric Rate Case Increases	
December 2003 (docket 6680-UR-113)	$ 14.4
July 2005 (docket 6680-UR-114)	$ 18.6
Total Electric Rate Case Increases	$ 33.0
Fuel Changes	
March 2004 (docket 6680-UR-113)	$ 15.8
September 2004 (docket 6680-UR-113)	$ (5.4)
April 2005 (docket 6680-UR-113)	$ 26.4
October 2005 (docket 6680-UR-114)	$ 41.3
December 2005 (docket 6680-UR-114)	$ 55.0
Total Fuel Case Changes	$ 133.1
Total Rate Changes for Electric	$ 166.1
Natural Gas Rate Case Increases	
December 2003 (docket 6680-UR-113)	$ (0.4)
July 2005 (docket 6680-UR-114)	$ 2.0
Total Rate Changes for Gas	$ 1.6

Relevant Statutes and Sections of Act 79

Impact on Public Utilities – Act 79, Section 1

Section 1(7) of Act 79 provides that the public interest and the interest of investors and consumers can be protected if:

(a) Transactions between a public utility in a public utility holding company system and the holding company or its non-utility affiliates are subject to public service commission approval and regulation to assure that reasonable prices are charged and costs properly allocated.

(b) The non-utility activities of the public utility holding company system do not substantially lessen competition, do not tend to create a monopoly or restrain trade, and do not constitute an unfair business practice.

(c) The public utility activities of a non-telecommunications public utility in a public utility holding company system remain subject to Public Service Commission (PSC) jurisdiction and regulation.

(d) The activities of the public utility holding company system do not cause any materially detrimental effect on the public utility's rates for or reliability of utility service to the public, cost of capital or ability to raise capital.

(e) The PSC has access to the books and records of the public utility holding company system to the extent relevant for the Commission to regulate any public utility in the system.

(f) The provision of reliable and reasonably priced public utility service remains the predominant business of a public utility holding company system.

Wis. Stat. § 196.795(5)(g) further provides that:

> No holding company system may be operated in any way which materially impairs the credit, ability to acquire capital on reasonable terms or ability to provide safe, reasonable, reliable and adequate utility service of any public utility affiliate in the holding company system.

Appendix H

ALLIANT ENERGY.

Wisconsin Power and Light Co.
An Alliant Energy Company

Corporate Headquarters
4902 North Biltmore Lane
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Madison, WI 53707-1007

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May 22, 2008

Mr. Robert Norcross
Administrator, Gas and Energy Division
Public Service Commission of Wisconsin
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RE: Draft Holding Company Report on Alliant Energy Corporation

Dear Mr. Norcross:

Thank you for the opportunity to comment on the draft of Commission staff's 2004-2005 "Audit Report on Alliant Energy Corporation," reporting to the Legislature and the Commission on Alliant Energy's operation as a public utility holding company and the impact of the holding company on Wisconsin Power and Light Company (WPL). WPL and Alliant Energy plan to work with Commission staff and provide staff with certain detailed information in response to particular items raised in the draft report. In this response, we would like to discuss more generally some of the key subjects addressed in the draft report.

Impact of holding company on financial health of utility: The audit report shows that for the audit period (2004-2005), the credit quality of WPL improved from prior periods, resulting in a ratings upgrade in 2005 by Standard & Poor's. The ability of Alliant Energy to infuse equity into WPL when needed had the effect of improving WPL's credit metrics without the constraints associated with a public equity issuance. The financial flexibility that the holding company provides has brought credit stability to WPL, which has positively impacted the credit and cost of WPL's credit.

Relationships between affiliates: We recognize the importance of ensuring compliance with applicable requirements for transactions between utility and non-utility affiliates, and maintaining proper separation between utility and non-utility functions within the holding company system. During 2007 this area was reviewed by Internal Audit, and Alliant Energy is presently implementing its recommendations for enhanced training for all personnel as well as improving compliance tools for transactions between affiliates.

Cost allocation methodologies: We will continue to use our best efforts to assign costs based on specific functions wherever possible. In that regard, for non-utility products and services that are provided by WPL, we will continue to emphasize and train Alliant Energy and WPL staff on the proper identification and allocation of costs to be charged to non-utility functions. We are interested in further investigating the software upgrades and other resources which Commission staff believe may assist us in more sophisticated data analyses for cost allocation.

Master services agreement: While the current master agreement with Alliant Energy Corporate Services (AECS) for the provision of administrative services to WPL remains in effect, we recognize that changes since 2005 in the federal statutory scheme for utility holding company regulation, including the transfer of utility holding company oversight from the SEC to the FERC, present an opportunity to re-examine the specific provisions of the services agreement. We plan to revisit the master services agreement in the next twelve months.

Securities issued by non-utility affiliate: The draft report discusses a securities issuance by a non-utility affiliate and some unique tax issues associated with those securities. WPL will separately update the 2006 information reviewed by the auditor with more current information, and is happy to update that information in the future. We note, however, that this item involves securities and tax issues in a non-utility subsidiary, not in the utility. The separation between the utility, the non-utility affiliate, and the holding company which are required under Wisconsin law insulate utility ratepayers from either benefit or detriment associated with this particular transaction, precisely as the law envisions.

Disclosure controls and internal investigations: Alliant Energy strives to meet the highest standards of disclosure controls and ethical and legal compliance. The draft audit report discusses a matter which in 2006, when the audit was being conducted, was being internally investigated from several different perspectives. Since that time, the investigations have been concluded and all relevant information has already been publicly disclosed. The auditor may not have been aware of the steps which have been taken between 2006 and now; if so, we will separately supply this information. This matter was continuously monitored and reviewed both internally and with Alliant Energy's external auditors as well as other regulatory agencies, with the conclusion that both our disclosure controls and our ethics and compliance functions worked extremely well. While it should be noted that this matter did not involve the utility, Alliant Energy welcomes the opportunity to update Commission staff on our internal controls.

Again, we appreciate the opportunity to review and offer these comments on the draft report.

Sincerely yours,

/s/ Theresa M. Hottenroth
Theresa M. Hottenroth
Assistant General Counsel